

**SUPPORTING THE AMERICAN DREAM OF
HOMEOWNERSHIP: AN ASSESSMENT OF NEIGHBORHOOD
REINVESTMENT'S HOME OWNERSHIP PILOT PROGRAM**

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EXECUTIVE SUMMARY

Based on recommendations from a group of NeighborWorks® organization (NWO) directors, Neighborhood Reinvestment initiated the Campaign for Home Ownership in 1993. That campaign provided NWOs with both funding and technical assistance to expand homeownership opportunities in the communities they serve. Based on the experiences of organizations involved with that campaign, Neighborhood Reinvestment staff distilled a model homeownership assistance strategy they call Full-Cycle LendingSM. This model includes six components: partnership building, pre-purchase home-buyer education, flexible loan products, property services, post-purchase counseling and neighborhood impact. Based on the success of this first five-year Campaign, Neighborhood Reinvestment supported a second five-year campaign called the Campaign for Home Ownership 2002.

In 1998 Congress authorized \$25 million for a NeighborWorks® Home Ownership Pilot program designed to leverage additional local support and test new strategies for assisting first-time home buyers. In less than four months, the Neighborhood Reinvestment Home Ownership Campaign staff developed and implemented specific program guidelines for the distribution of funds to local NWOs. These guidelines allowed NWOs great flexibility in the use of Pilot funds including using the funds for upgrading computers, hiring staff, developing marketing plans and programs, capitalizing loan funds, providing down payment assistance as well as other uses.

Campaign staff developed guidelines for three funding categories, A, B, and C, designed to respond to the different needs of NWOs. Category A grants (up to \$500,000) were to assist NWOs that were already assisting 30 or more home buyers a year increase the number of home buyers assisted. Category B grants (up to \$500,000) were to assist NWOs that were already assisting a large number of new home buyers enhance the positive impacts of home ownership on their target areas by undertaking other neighborhood improvement activities as well as increasing the number of home buyers assisted. Category C grants (up to \$50,000) were to assist NWOs that were assisting a relatively low number of new home buyers build their capacities to do so. A total of 35 Category A grants were made, nine Category B grants and 40 Category C grants.

To assist Campaign and Pilot sites in achieving their goals, Neighborhood Reinvestment provides several types of technical assistance. The semi-annual Neighborhood Reinvestment Training Institute offers a variety of courses on developing homeownership promotion programs and home-owner education methods. Neighborhood Reinvestment has also developed an extensive array of marketing materials that can be used by Campaign and Pilot organizations. Finally, Neighborhood Reinvestment Campaign and field staff assist participating organizations with special challenges as they arise.

This report is the second of three reports evaluating the outcomes, implementation process and impacts of the Pilot. The outcome evaluation was designed to document the results of the Pilot including the number of persons trained and/or counseled, the number of new home owners assisted, and the value of housing units purchased, built or rehabilitated with the assistance of the Pilot organizations. This evaluation is based on information provided to Neighborhood Reinvestment by participating NWOs. The process evaluation was designed to document and evaluate the efforts of Neighborhood Reinvestment and participating NWOs in planning and implementing the Pilot programs. This part of the evaluation is based on interviews conducted in two rounds of site visits to eight Category A and B Pilot programs—once in the fall of 1999 and once in the spring and summer of 2001. Finally, the impact evaluation was designed to assess the influence of the Pilot on the participating NWOs and their clients. The evaluation is based on interviews with NWO staff and focus groups of new home owners assisted in the eight sites visited.

The Outcome Evaluation

To gauge the Pilot's success at meeting its numerical goals for the number of new home owners, we analyzed data reported to Neighborhood Reinvestment from the participating organizations.

These data indicate that during the two-year Pilot period the participating NWOs provided homeownership training or counseling to 86,204 individuals, facilitated \$1.5 billion in investments and assisted 17,367 new home buyers. A comparison of the number of home buyers assisted to the collective goals set by the participating NWOs in their applications for Pilot funds indicates that they reached 93 percent of their goal of assisting 18,671 homebuyers. Given the difficulty of tracking clients to see if they bought a home, the actual number of home buyers assisted likely exceeds the collective goal. Category A organizations met 93 percent of their goal, Category B organizations achieved 74 percent of their goal, while Category C organizations reached 107 percent of their goal.

In general, outcomes were consistent with funding priorities, with Categories A and C organizations showing substantial increases in both the numbers of persons counseled and new home owners assisted. Category B organizations focused their efforts on a broader neighborhood revitalization agenda and reported a slight decline in the number of home owners assisted. Data on the characteristics of the new home owners assisted show that 50 percent were white, 24 percent were Hispanic, 21 percent were African America and 5 percent were of another ethnicity. Those data also indicate that 19 percent of the new homeowners had very low incomes (below 50 percent of the area median), 46 percent had low incomes (between 50 and 80 percent of the area median), 23 percent had moderate incomes (between 80 and 115 percent of the area median) and 12 percent had incomes above 115 percent of the area median. Looking at

household composition, 32 percent of new home buyers were two-parent households, 24 percent were single adults, 23 percent were female-headed households with children and 10 percent were married households without children.

The Process Evaluation

To gain a deeper understanding of how the Pilot program was implemented at the local level, eight local organizations were chosen for in-depth study. Visiting these sites twice during the study period gave us the opportunity to follow the progress of Pilot program implementation and analyze the obstacles and facilitators faced in the different sites.

Overall, we found that the Pilot programs were successfully implemented and the funds were used effectively. The participating NWOs were also found to have developed effective partnerships with financial institutions, public sector agencies and other nonprofit organizations. A large majority of the Pilot funds were used to provide second mortgages and down payment assistance loans to low-income buyers. As these loans are repaid, the Pilot funds will be used to assist additional home buyers. The remaining funds were used to hire additional staff, expand marketing and otherwise improve the delivery of services to clients, including expanding the languages in which homeownership counseling and training is offered. Almost all the clients involved in the focus groups felt that the training and counseling they received was extremely helpful in purchasing a home. Many reported that they didn't think they could have bought without the assistance provided by the NWOs.

Two areas in which some of the Pilot programs could improve their homeownership programs are marketing and post-purchase counseling and training. Some Pilot organizations rely too heavily on word-of-mouth for attracting new clients. In others, post-purchase counseling and training was found to be the least well-developed component of the Full-Cycle LendingSM process.

The Pilot organization staff interviewed identified a number of challenges to implementing homeownership promotion efforts. These include: lack of affordable housing in the local area; increasing costs of rehabilitation, difficulty communicating with potential customers and tracking clients, staff turnover, lack of interest among real estate brokers; unrealistic expectations among buyers as to the location and size of units they can afford; and predatory lenders.

The Impact Evaluation

The Home Ownership Pilot program was designed to have positive impacts on the participating organizations, the areas targeted by the participating NWOs and low- and moderate-income

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families interested in home ownership. Our assessments of these impacts are based on interviews with Pilot programs staff and other knowledgeable professionals and on focus groups with program participants.

Impacts on the organizations

The professionals interviewed during our site visits identified several positive impacts of the Pilot on the capacity of the participating NWOs. These include:

- Pilot funds allowed Pilot organizations to hire additional staff, which, in turn, allowed them to assist a larger number of clients;
- capacity enhancements supported by Pilot funds allowed many of the participating NWOs to expand the geographic areas served;
- Pilot funds led to important improvements in the marketing of homeownership services;
- Pilot funds substantially increased their capacities to provide affordable loan products; and
- Pilot funds helped both strengthen existing partnerships and, to a lesser extent, create new ones.

Impact on neighborhoods

One of the objectives of the Home Ownership Pilot was to improve neighborhoods through increasing home ownership rates. This is particularly true in the Category B sites where neighborhood improvement projects were funded with Pilot funds. In this report we present subjective assessments of neighborhood change as seen by the professionals interviewed in each site.

When interviewees in Category B sites were asked about the Pilot's impacts on local neighborhoods, the most frequent response was, "it is too early to tell." Many of the interviewees felt that two years was too short a time to expect any major changes. Having said this, many went on to suggest that they have seen early signs of neighborhood revitalization, including:

- new businesses;
- a reduction in the level of abandoned properties and crime;
- fewer absentee landlords; and
- an improved neighborhood appearance.

Many of the Category A sites also felt the Pilot was having a positive impact on local neighborhoods through increased homeownership rates. Impacts cited included:

- greater neighborhood pride among residents;
- better maintenance of homes;
- improved perceptions of safety; and
- an increase in property values.

Impacts on families

The ultimate measure of the success of the Pilot program is its impacts on the families served. An analysis of the comments made by new homeowners in the focus groups held suggests that the Pilot program has had a number of important impacts on the home buying families. The four most frequently mentioned impacts were that home ownership:

- increased control over the home environment;
- increased financial security;
- additional space for the family; and
- an enhanced self-esteem.

The future of home ownership promotion efforts

In the coming years, the homeownership promotion programs of NWOs are likely to face several new challenges. Among these are: a weakened demand for home ownership, a change in the characteristics of clients—such that there will be a higher proportion of "harder-to-serve clients"—heightened competition from private lenders and a dearth of affordable units.

To meet these challenges, we recommend that NWOs, with the assistance of Neighborhood Reinvestment, increase the marketing of their home owner assistance programs, create new local partnerships, increase their capacity to serve recent immigrants, develop home buyers clubs, find additional capital to provide below-market rate second mortgages and down payment assistance; expand their post-purchase homeownership training and work to increase the supply of affordable housing units in their communities. For its part, NHSA needs to develop more competitive loan products.

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CHAPTER 1: INTRODUCTION

Home ownership is a valued and highly sought-after objective of most American families (Fannie Mae 1999). This is not surprising given the economic benefits associated with owning a home, including wealth creation through appreciation in the home's value and tax benefits through the Home Mortgage Interest deduction (McCarthy, Van Zandt and Rohe 2001). Home ownership has also been shown to have several social benefits including higher levels of residential satisfaction neighborhood stability (Rohe, Van Zandt and McCarthy 2000; Rohe and Basolo 1997, Rohe and Stewart 1996). These highly desirable benefits have led private and public institutions at the federal, state and local levels to promote home ownership, particularly among segments of the population with below-average homeownership rates.

Many prospective home buyers, however, encounter barriers, such as a lack of income, insufficient savings for down payment and closing costs, or credit problems. In other instances prospective buyers simply lack information on the benefits and process of home ownership or face a language barrier that prevents them from buying a home. Whatever the reasons, these households have not been able to enjoy the benefits of home ownership.

Several efforts designed to assist low- and moderate-income families buy their own homes have recently emerged. For its part, Neighborhood Reinvestment has encouraged its affiliated NeighborWorks® organizations (NWOs) to offer services designed to increase access to home ownership among low- and moderate-income families. In 1992 Neighborhood Reinvestment initiated the Campaign for Home Ownership which provided NWOs both funding and technical assistance to expand homeownership opportunities in the communities they serve. Based on the success of this first five-year program, Neighborhood Reinvestment sponsored a second five-year campaign called the Campaign for Home Ownership 2002. In addition, in 1998 Congress authorized \$25 million for a NeighborWorks® Home Ownership Pilot program designed to assist additional first-time home buyers and test new strategies for expanding access to home ownership.

Background and History of the Campaign and Pilot

The Campaign

The idea for the NeighborWorks® Campaign for Home Ownership came out of a meeting of NeighborWorks® directors held in 1992. The directors were interested in further developing their ties to local financial institutions and in finding ways to increase home ownership in their target communities. Neighborhood Reinvestment staff worked with a group of directors in designing the Campaign for Home Ownership, a five-year initiative launched in 1993.

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The Campaign provided grants and technical assistance to 110 community-based organizations in the NeighborWorks[®] organizations network to help them develop or expand their homeownership promotion activities. Over a five-year period, the goals of the Campaign were to:

- Secure home ownership for 10,000 low- and moderate-income Americans;
- Educate and counsel 75,000 potential buyers;
- Work with lenders and real-estate agents to improve access to home ownership in under-served markets;
- Revitalize neighborhoods and communities through homeownership promotion programs;
- Attract \$650 million in public and private sector investment in community development; and
- Identify and document specific methods or products, including secondary-market products, that can be adopted by conventional lenders to better serve the needs of low- and moderate-income buyers (Neighborhood Reinvestment, 1997).

Funding for the Campaign was provided by Neighborhood Reinvestment, ten public and private national partners, five financial industry regional partners and two corporate program partners. Neighborhood Reinvestment also dedicated 2.5 full-time staff to managing the Campaign and providing technical assistance to participating organizations.

Full-Cycle LendingSM

Based on the early experiences of organizations involved in the Campaign, Neighborhood Reinvestment staff distilled a model homeownership assistance strategy called Full-Cycle LendingSM. Full-Cycle LendingSM includes the following six components.

1. NeighborWorks[®] Organization partnership building

The NeighborWorks[®] organization makes a commitment to the process by creating a partnership of residents, business leaders and local government leaders. A plan for targeted community revitalization is put in place.

2. Pre-purchase home-buyer education

The home buyers learn about the purchase process with a supportive organization that helps them clear up credit problems, find a home they want to buy, and coordinate the rehabilitation needs of the property.

3. Flexible loan products

Local lenders work with the NeighborWorks[®] organization to create mortgage products the customer can afford. Property casualty insurance and mortgage insurance companies provide products that allow for high loan-to-value ratio mortgages. Secondary markets buy loans and return funds to the lender, who recycles them by originating additional mortgages to the community.

4. Property services

The NeighborWorks[®] organization inspects the property, offers technical assistance to the home buyer and assists with the property's rehabilitation.

5. Post-purchase counseling

The NeighborWorks[®] organization trains the new owners in home maintenance and budgeting and supplies early intervention delinquency counseling so that defaults and foreclosures are avoided.

6. Neighborhood impact

Home owners gain a stake in their communities; lenders reach a significant market in which risk has been mitigated; the tax base increases; and the nonprofit partnership is one step closer to achieving its goal of neighborhood self-sufficiency (Neighborhood Reinvestment 1998).

Once developed, executive directors of the NeighborWorks[®] organizations involved in the Campaign suggested a national certification process that would give them additional credibility with lenders and secondary market organizations and would ensure a high quality of service to customers. This led Neighborhood Reinvestment staff to develop a three-step process that local organizations complete before they are certified. Step one involves an application to Neighborhood Reinvestment that includes a board resolution stating that the organization has in place or is prepared to adopt the components included in Full-Cycle LendingSM. Step two involves staff certification in both home-buyer education and mortgage lending. The Neighborhood Reinvestment's Training Institute developed short courses on those topics and offers them as part of their semi-annual institutes held around the country. Step three involves an application for national certification that is reviewed by the Campaign for Home Ownership's

steering committee. Members of the committee conduct site visits to confirm that the organization is offering all the components of Full-Cycle LendingSM.

Results of the Campaign for Home Ownership

Based on data collected and reported by Neighborhood Reinvestment, the Campaign for Home Ownership achieved the following results: 102,447 persons trained or counseled, 15,880 new home owners created; and \$1.1 billion invested in the communities served. Moreover, the characteristics of the home buyers indicated that 95 percent were first-time home buyers, 69 percent earned less than 80 percent of the local area median income (AMI), 60 percent were ethnic minorities and 42 percent were female-headed households. In addition, Campaign staff worked with secondary market organizations in developing special loan products that were better suited to the characteristics and needs of the customers being served by the organizations participating in the Campaign. Both Fannie Mae and Freddie Mac now offer a special NeighborWorks[®] loan product and the Neighborhood Housing Services of America (NHS) refined its first and second loan products for more effective utilization by organization cities.

Campaign for Home Ownership 2002

Based on the results of this initial five-year program, Neighborhood Reinvestment decided to sponsor a second five-year campaign called the Campaign for Home Ownership 2002. The goals for this campaign were to expand first-time home ownership by 25,000, counsel 200,000 families and generate \$1.8 billion in total investment. Funding for this second campaign comes from eight national corporate partners, twelve regional partners and a Congressional appropriation. A total of 107 NeighborWorks[®] organizations are participating in the current Campaign.

Home Ownership Centers

Based on the success of some of the large-city NeighborWorks[®] organizations with one-stop centers for home ownership, Neighborhood Reinvestment has also funded the creation of NeighborWorks[®] Home Ownership Centers in many cities with organizations involved in the Campaign. Neighborhood Reinvestment provided these organizations with additional grants of up to \$50,000 to create convenient one-stop Home Ownership Centers where customers can find all the services and training they need to purchase, rehabilitate, insure and maintain a home. Currently, these centers serve more than 60 communities.

The Home Ownership Pilot program

In 1998, in response to White House interest in developing an initiative to provide incentives and rewards for hard-working, lower-income Americans, Congress authorized \$25,000 million for a NeighborWorks[®] Home Ownership Pilot program. The program was designed to: (1) leverage additional local public and private dollars for first-time home buyers; (2) expand the capacities of

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NeighborWorks[®] organizations to assist new home buyers; and (3) test new strategies for expanding access to home ownership for low-income persons. Thus, while supporting the goals of Campaign 2002, Pilot funds are intended to stimulate production over and above the Campaign 2002 goals listed above. The Pilot was authorized to run for two years starting in October 1998 and continuing through September 2000.

Once the Pilot funds were appropriated, Neighborhood Reinvestment Home Ownership Campaign staff designed a long-term approach that focused on organizational capacity-building and neighborhood improvement as the primary means to achieving the stated goals. In less than four months, the Campaign staff developed and implemented specific program guidelines for the distribution and use of funds. In addition, they initiated the independent evaluation to determine the soundness and effectiveness of the Pilot.

In consultation with members of Neighborhood Reinvestment's "Single Family Practice Group," which is composed of NeighborWorks[®] directors with particular interest in homeownership promotion, Campaign staff developed guidelines for three funding categories: A, B, and C. The three-level funding structure was designed to accommodate the different organizational development cycles and capacities of members of the NeighborWorks[®] Network.

Grants made under Category A of the Pilot had the primary purpose of assisting NeighborWorks[®] organizations to "boost their homeownership production, and a secondary purpose of assisting them with their revitalization efforts." To be eligible for Category A grants, NeighborWorks[®] organizations had to be producing 30 or more units per year and agree to a net increase of at least 100 units over the two-year grant period. Category A grants were between \$300,000 and \$500,000 for a two-year period. A maximum of \$100,000 or 30 percent of the grant total, whichever is greater, can be used for operating support.

Grants made under Category B were designed to "assist those NeighborWorks[®] organizations that were already high producers to broaden their revitalization impact. Its secondary purpose was to stimulate new homeownership production." To be eligible for Category B grants, NeighborWorks[®] organizations had to be producing at least 70 units per year. Applicants were encouraged to coordinate their homeownership promotion activities with other neighborhood revitalization strategies. The maximum grant amount was \$500,000 with a maximum of 30 percent of the grant being used for operating support.

Grants made under Category C were designed to assist organizations build their capacities to provide homeownership promotion services, particularly in the areas of market analysis, market outreach and systems improvements. There were no minimum homeownership production requirements for Category C grants. The maximum grant amount was \$50,000 with no funds

allowed for staff salaries. A total of 113 organizations applied to participate in the Pilot program. Overall, 35 Category A sites, 9 Category B sites, and 29 Category C sites were selected.

Technical assistance provided by Neighborhood Reinvestment

To assist the Campaign and Pilot sites in achieving their goals, Neighborhood Reinvestment provides several types of technical assistance. The Neighborhood Reinvestment Training Institute has regular courses on developing homeownership promotion programs as well as home-owner education methods. These training institutes are offered twice a year in different major cities across the country. The courses offered include:

- Accessing Loan Capital Through the CDFI Fund
- Certified Home Owners Insurance Counselor Training Program
- Community Development Lending
- Creating a Home Ownership Center
- Delivering an Effective Home ownership Education Program
- Developing a Home Maintenance-Training Program
- Economic Literacy Education Before and After the Sale
- Employer-Assisted Housing Programs
- Foreclosure Prevention and Loan Workouts
- Forum: Tools and Tactics to Combat Predatory Lending
- From Public Housing to Home Ownership
- Fundamentals of Foreclosure Prevention
- Fundamentals of Home Ownership
- Fundamentals of Residential Lending
- Home Equity Conversion Mortgages
- Home Buyer Education Methods: Training the Trainer
- Home Buyers Clubs
- Housing Counseling
- Impacts of Credit Scoring
- Loan Servicing and Collection
- Marketing Your Home Ownership Program

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- Measuring and Analyzing the Impacts of Home Ownership Programs
- Preserving the American Dream I: Beginning to Intermediate Foreclosure Prevention
- Preserving the American Dream II: Advanced Foreclosure Prevention
- Promoting Home Ownership With Two- to Four-Unit Properties
- Reaching Immigrant Populations to Create Home ownership
- Strategies for Designing Innovative Loan Products
- Using the Federal Home Loan Bank's Community Investment Program

Neighborhood Reinvestment also sponsors regional training institutes that offer courses in developing a homeownership promotion program and home-buyer education.

Neighborhood Reinvestment has developed an extensive array of informational and marketing materials that can be used by Campaign and Pilot organizations. They, for example, have pamphlets on the benefits of home ownership, success stories in homeownership promotion, partnership building, and employer-assisted home ownership. They also have marketing materials such as key rings and T-shirts. These materials are available through the Campaign for Home Ownership Clearinghouse that also provides useful materials produced by other organizations such as homeownership training manuals produced by Chattanooga Neighborhood Enterprise and Fannie Mae.

During the period of the Pilot implementation, the Campaign and Pilot staff assisted the participating organizations with special challenges they may have encountered. During this time, there were eight Neighborhood Reinvestment staff members assigned to manage and provide technical assistance to Campaign and Pilot participants. In addition, there was a Campaign steering committee that includes other Neighborhood Reinvestment field staff as well as executive directors of NeighborWorks® organizations that oversaw Pilot progress and recommended policy changes as necessary. Each of Neighborhood Reinvestment's district offices also had staff members who assisted Pilot organizations in specialized areas such as lending.

This report is the second of three reports evaluating the implementation process, outcomes and impacts of the Pilot. The first report, entitled *An Assessment of The Neighborhood Reinvestment Corporation's NeighborWorks® Home Ownership Pilot Program* (2000) covered the early implementation of the Pilot. This second report covers the outcomes of the Home Ownership Pilot, including the number of persons counseled and new home buyers assisted. It also presents qualitative data on the Pilot's impacts on the sponsoring organizations, the target neighborhoods

and the clients served. The final report, due in early 2003, will present quantitative data on the impacts of the Pilot on both neighborhoods and clients.

The main objective of the outcome evaluation, presented in Chapter 2 of this report, is to document the results of the Pilot in terms of the number of persons trained and counseled, the number and characteristics of new home owners assisted, and the amount of direct investment. This evaluation is based on information provided by sponsoring NWOs to Neighborhood Reinvestment. The process evaluation, presented in Chapter 3, documents and evaluates the efforts of Neighborhood Reinvestment and the NWOs in planning and implementing the Pilot program and identifies effective strategies for homeownership promotion. The process evaluation is based on two round of site visits to eight Pilot organizations: once in the fall of 1999 and once in the spring and summer of 2001. The main objective of the impact evaluation presented in Chapter 4 is to assess the impacts of the Pilot on the sponsoring organizations, the neighborhoods served and the clients assisted. This analysis is also based on interviews with persons involved in or knowledgeable about the program and focus groups of program participants in the eight sites visited.

CHAPTER 2: OUTCOME EVALUATION

Neighborhood Reinvestment's Home Ownership Pilot was designed to increase the number of persons counseled, create additional home owners and increase investment in target communities. In this chapter we examine data on each of these program objectives during the two-year Pilot program. Data on these objectives were provided to Neighborhood Reinvestment by the participating NWOs. Each participating organization submitted quarterly reports on homes for which it played a direct role in lending, loan packaging, underwriting, contracting (construction or rehabilitation) or the counseling of the buyers. Those organizations also submitted quarterly reports on the demographic characteristics of new home buyers that they assisted and the type of counseling and financial assistance they received.

For several reasons, it is not possible to attribute increases in production to the Pilot program alone. First, the sponsoring organizations received funding for home ownership production from a variety of other sources, not just the Pilot. Second, both national and local economic and political conditions may have impacted the number of persons seeking homeownership assistance. Third, few organizations distinguish between funds from the Campaign for Home Ownership and those from the Pilot program. Finally, the Pilot will continue to impact production beyond the two-year program period. Clients who received counseling during the Pilot period, for example, may go on to purchase homes in the future.

Program outputs

We examine three different quantitative measures of production during the Pilot period: the number of clients counseled and/or trained, the number of home buyers assisted and the total dollar amount invested in home purchases and rehabilitation costs. For each, we look at the four quarters prior to the beginning of the Pilot, which began in the second quarter of 1999¹. These values establish a baseline against which to compare outputs during the Pilot period. These numbers do not, however, take into account local and national economic trends or other factors affecting production levels.

Number of persons counseled

The total number of clients who received pre- or post-purchase counseling or training during the Pilot period was 86,204 (see Table 1). Pre-purchase counseling was up 13 percent over the baseline period, while post-purchase counseling decreased 33 percent. The decrease in post-purchase counseling for each of the funding categories most likely reflects a decrease in

While the official start of the Pilot was January 1, 1999, no Pilot funds were distributed to participants until the middle of the second quarter of 1999. Thus, program-related output is calculated beginning with the second quarter of 1999.

delinquencies due to the strong economy in 1999 and 2000. As we discuss elsewhere in this report, the more recent downturn in economic conditions is likely to increase demand for post-purchase counseling.

Category A organizations increased the number of persons receiving pre-purchase counseling or training by 18 percent, while Category C organizations increased the number by 37 percent. Category B organizations, however, show a 24 percent decline in the number of persons receiving pre-purchase counseling or training. These differences in production levels reflect the objectives of each funding category. While the main objective of Category A and C grants was to boost the number of persons counseled and trained, the main objective of Category B funding was to support neighborhood revitalization.

Table 1. Number of persons receiving counseling or training.

Funding Category	Pre-purchase			Post-purchase		
	Actual	Baseline^a	Net Impact	Actual	Baseline^a	Net Impact
A	37,369	31,698	+18%	9,024	12,178	-26%
B	10,203	13,470	-24%	5,100	9,486	-46%
C	19,227	14,008	+37%	3,449	4,536	-24%
Total	66,799	59,176	+13%	17,573	26,200	-33%

^a Calculated by multiplying 1998 production numbers by two to give a period comparable to the two-year pilot period.

The large increase of pre-purchase counseling and training seen among Category C organizations suggests that capacity-building measures such as systems improvements or market analysis may have been particularly effective. However, it may also indicate that these smaller, younger organizations simply had more opportunities for growth while Category A and B organizations had already captured a large portion of the market for homeownership assistance.

Number of home buyers assisted

During the Pilot period, 17,397 new home buyers were assisted by Pilot organizations, an increase of 40 percent over the baseline period (see Table 2). Table 2 also shows the extent to which Pilot organizations achieved the goals they set for themselves.

In their applications for Pilot funds, Pilot organizations collectively proposed to assist approximately 18,671 new home buyers. As a whole, the Pilot organizations met 93 percent of their goal. Category A organizations met 93 percent of their goal, Category B organizations achieved 74 percent of their goal, while Category C organizations achieved 107 percent of their goal. Given the difficulty of tracking clients who, after receiving pre-purchase counseling from

NWOs, end up buying a home without informing NWOs, the actual number of new home buyers assisted by Pilot organizations is undoubtedly higher.

Table 2. Number of home buyers receiving assistance from participating NeighborWorks[®] organizations during Pilot period^a.

Category	Projected	Actual	% Goal	Baseline ^c	Net Impact from Baseline	
A	11,159	10,392	93%	7,088	3,304	(+54%)
B	3,186	2,362	74%	2,516	-154	(-6%)
C	4,326 ^b	4,643	107%	3,208	1,435	(+45%)
Total	18,671	17,397	93%	12,812	4,585	(+40%)

^a Due to the established reporting periods for both actual and projected numbers of home buyers, these data are for the period 1/1/99 through 12/31/00.

^b Projections were unavailable for 3 Category C sites. Together these sites produced 334 new home buyers.

^c Calculated by multiplying 1998 production numbers by two to give a period comparable to the two-year pilot period.

Pilot funds were intended to assist the participating NWOs in increasing the number of new home buyers assisted. The actual and projected numbers do not take into account the number of new home buyers that were being produced prior to the start of the Pilot. To determine the net increase from the baseline, the baseline production numbers are subtracted from the total number produced. During the Pilot period there was a 4,585 net increase in the number of home buyers assisted represents an impressive 40 percent increase over prior production levels. Many organizations use Pilot funds to set up mechanisms such as revolving loan funds that will continue to assist home buyers over time.

The number of new home owners assisted in Category A and C organizations an average of 54 and 45 percent, respectively, while in Category B organizations the number of home buyers assisted declined by six percent. The 54 percent increase in the number of home buyer assisted in Category A sites is well beyond what would have been expected given the more modest 15 percent increase in the number of persons counseled or trained. Category C organizations experienced a considerably smaller relative increase. These findings may indicate that while capacity-building activities enabled both types of organizations to serve more clients, the increased availability of capital funds to Category A organizations enabled them to create larger numbers of new home buyers.

Value of direct investment

The value of housing units purchased, built or rehabilitated with assistance from the participating organizations is another important measure of Pilot success. Sources of investment include

revolving loan or other funds directly from the NWO, but also include the value of homes purchased by clients receiving only counseling or training from the NWO. Table 3 shows the dollars leveraged using Pilot funds.

Table 3. Value of housing units purchased, built or rehabilitated with assistance^a by Pilot organizations.

Category	Actual	Baseline	Net Impact from Baseline	
A	\$970M	\$675M	\$295M	(+30%)
B	\$206M	\$214M	(\$7M)	(-3%)
C	\$369M	\$221M	\$148M	(+40%)
Total	\$1.5B	\$1.1B	\$435M	(+28%)

^a Assistance includes, but is not limited to, lending, loan packaging, underwriting, specification writing, contracting, training, counseling or functioning as a real estate agent.

Pilot organizations played a role in more than \$1.5 billion in investment during the Pilot period. Compared to the baseline, Pilot organizations generated an additional \$435 million in investments, a 28 percent increase. Within categories of funding, we see an increase in investments among the Category A and C organizations of 30 and 40 percent, respectively.

Category B investment held steady at about what we would expect had pre-Pilot trends continued. The number of Category B organizations is small (nine), making any conclusion speculative. These sites may have experienced poor market conditions or the organizations themselves may be mature, with limited room for improvement.

Characteristics of home buyers

As mentioned above, Pilot organizations created over 17,000 new home buyers during the Pilot period. To better understand what kinds of clients are becoming home buyers, we examine the characteristics of buyers assisted by the Pilot organizations. Table 4 presents a summary of the characteristics of NWO borrowers (see Appendix B for a more detailed table of buyer characteristics).

Table 4. Characteristics of NeighborWorks® home buyers and buyers of other affordable products.

Characteristic	NeighborWorks® (1999-2000)	FHA (1999)	Fannie Mae (1999)	Freddie Mac (1999)	Conforming Market (1999)
Race/Ethnicity					
White	49.8%		82.7%	85.1%	
Hispanic	24.2%	19.3%	6.0%	5.5%	7.1%
Black	21.3%	14.6%	3.4%	3.5%	5.4%
Other	4.7%		7.9%	5.9%	
Income*					
Very Low	19%	20%	10.1%	7.5%	16.4%
Low	46%	47%	27.2%	26.1%	39.0%
Moderate	23%	32%	62.7%	66.4%	44.6%
Above-Average	12%				
Gender of buyer					
Single Women	40%		15.7%	14.6%	
Co-buyers	36%				
Single Men	24%				
Household Composition					
Married w/ kids	32%				
Single Adult	24%				
Female-headed single parent	23%				
Married w/o kids	10%				
Unrelated adults	4%				
Male-headed single parent	3%				
Other	3%				

Source: Except for race/ethnicity figures, Fannies Mae and Freddie Mac data are from Paul B. Manchester, 1996-1997 (tables 5 and 6b). Race and ethnicity figures for Fannie Mae, Freddie Mac, FHA and the conforming market are from Harold Bunce, 2000. Other FHA and conforming market data are from Harold Bunce and Randall M. Scheessele 1998 (table 2). The conforming market consists of loans below the 1997 conforming limit of \$214,600.

* Income categories for NeighborWorks® clients are defined as follows: Very low is < 50% MSA Median, Low is >50% and <80%, Moderate is >80% and <115% and Above-Average is >115% MSA Median. Categories for other lenders are defined as follows: Very low is <=60% AMI, Low is 61-100% AMI and Moderate is >100% AMI.

NeighborWorks® serves a very diverse population. While half of new home buyers assisted were white (50 percent), minority groups comprised the other half. Twenty-four percent were Hispanic and 21 percent were African-American home buyers. The remaining five percent are Asian, American Indian or other ethnicities. Compared to a national database of for-profit affordable mortgage products held by FHA, Fannie and Freddie Mac, as well as the conforming

market, these figures indicate that NWOs serve a population with lower percentages of white buyers and higher percentages of black and Hispanic buyers.

Two-thirds of the home buyers assisted had low or very low incomes. Examining the income characteristics of clients, we see that 19 percent of buyers had very low incomes (below 50 percent of the MSA median) and 46 percent have low incomes, defined as between 50 and 80 percent of the MSA median. Moderate-income (80 - 115 percent of MSA median) buyers were only 23 percent of NWO clients. While the income breakdowns of other lenders of affordable products are not directly comparable, it is evident that NWOs serve a much lower-income population than those served by FHA, Fannie Mae and Freddie Mac.

The data on buyer characteristics show that the largest proportion were single buyers. Of these, 40 percent were single women and 24 percent were single men. Co-buyers made up the remaining 36 percent. The proportion of single women assisted by the NWOs is much higher than those of Fannie Mae and Freddie Mac (15.7 and 14.6 percent, respectively).

The largest percentage of households assisted was composed of married couples with children (32 percent), followed by single adults without children (24 percent) and female single parents (23 percent). Few of the home buyers assisted were married without children (10 percent), unrelated adults (4 percent) and single male parents (3 percent).

Characteristics of grants and loans

In Table 5, we present the data on the sale price of the homes purchased and the sources of funds used in the purchase. For each income category, we see the value of the house, monthly payment, first and second mortgages, and grant. Also calculated are remaining gap, gap financing and out-of-pocket costs. In parentheses, we see the percentage of the income category receiving a grant or mortgage.

As expected, house prices increase as incomes rise, as do the amounts of first mortgages, owners' out-of-pocket costs, and monthly payments. Not surprisingly, the percentage of buyers receiving grants and second mortgages decreases as household income increases. While 33 percent of all clients receive grants, more of these clients have very low and low incomes (39 percent and 38 percent respectively). Further, nearly half of all NWO clients receive second mortgages, more among the very low- and low-income clients. The lower the household income, the larger is the amount of grants and second mortgages.

Data on gap financing in the form of second mortgages and grants show that NWOs are helping clients to bridge income and wealth gaps to purchase a home in their communities. The gap between first mortgage and house price averages over \$7,300 for all clients, over 85 percent of which is covered with grants and second mortgages. While very low- and low-income

households have greater gaps, above-average clients also have a relatively large gap. The amount of gap financing, however, differs greatly, with very low- and low-income households receiving much larger amounts (and greater percentages) in grants and second mortgages. Above-average buyers have more funds available to make larger down payments, reducing the amount of gap financing necessary. Interestingly, moderate-income borrowers have both the smallest gap and the least amount of gap financing.

Regional housing markets also impact both housing costs and financing. Housing costs are higher in New England and along the Pacific coast, and lower in the Great Lakes, Mid-Atlantic and South Central regions (see Appendix D). Owner's out-of-pocket expenses are in accordance with the housing costs, but buyers in the Pacific and Southern regions appear to have lower out-of-pocket costs than their housing costs would warrant, relative to the other regions. Buyers in these regions are receiving greater amounts of gap financing in the form of second mortgages and grants. Perhaps these regions enjoy a greater variety of financing programs available.

Table 5. Average grant and loan characteristics, by household income.

Characteristics	Income				
	Very Low	Low	Moderate	Above Moderate	Total
House Price	\$67,362	\$79,094	\$97,307	\$116,460	\$85,277
1st Mortgage	\$59,417	\$71,279	\$91,519	\$108,694	\$77,889
Gap^a	\$7,945	\$7,815	\$5,788	\$7,766	\$7,388
2 nd Mortgage	\$5,624 (54%)	\$5,425 (51%)	\$3,740 (45%)	\$3,566 (35%)	\$4,863 (48%)
Grant	\$2,122 (39%)	\$1,728 (38%)	\$710 (24%)	\$937 (18%)	\$1,476 (33%)
Owner's out-of-pocket costs	\$3,992	\$3,488	\$5,209	\$8,567	\$4,552
Total Monthly Payment	\$554	\$657	\$834	\$1,003	\$714
Sample size	3,275	7,829	3,950	1,801	16,978

*Note: Percentage of income category receiving mortgage or grant is shown in parentheses.

^a Gap calculated by subtracting first mortgage amount from house price.

Taken together, data on the characteristics of grants and loans indicate that NWOs are serving an underserved population, many of whom need both affordable products and grants to become home owners.

Conclusions

During the Pilot period, participating organizations counseled 86,204 clients, assisted 17,397 home buyers, and invested more than \$1.5 billion in purchasing, constructing or rehabilitating homes for these buyers. Sponsoring organizations experienced increases in the number of people receiving pre-purchase counseling, the number of new home buyers and the amount of direct investment. Outcomes were consistent with funding objectives, with Category A and C organizations showing substantial increases in numbers served and Category B organizations focusing their efforts on a broader neighborhood revitalization agenda.

Pilot organizations serve a diverse, low-income population, a large proportion of which would not be served by conventional lenders. These are clients who would not be likely to become home owners without the assistance of the NWO. They often require counseling or training as well as financial assistance in the form of second mortgages or grants to make home ownership possible.

CHAPTER 3: PROGRAM IMPLEMENTATION

To gain a deeper understanding of how the Pilot program was implemented at the local level, eight local organizations were chosen for in-depth study. The sites were chosen to achieve variation in geography, city size and programmatic characteristics. Visiting these sites twice during the study period gave us the opportunity to follow the progress of Pilot implementation and analyze the obstacles and facilitators they faced.

Given the differences between the goals of Pilot Categories A and B, we chose to study four sites that were funded under each. The main goal of Category B organizations was to demonstrate the impacts that increased homeownership can have on neighborhood revitalization. The main objective of Category A organizations was to increase the number of new home owners. Table 6 highlights the main features of each organization.

Description of the organizations

The eight organizations studied represent a cross-section of NWOs. They range in age from 24 years (NHS of New Orleans) to 7 years (Salisbury NHS). Except for the organizations in Milwaukee and Salisbury, which were founded after 1992, the organizations studied did not adopt homeownership activities until they joined the Campaign for Home Ownership in 1992.

Each of the organizations offers homeownership education, lending and other programs throughout its city or county. Category B organizations sponsored additional activities designed to revitalize their target neighborhoods. The targeted neighborhoods in Category B sites were most often in or near the urban core—older neighborhoods with a high proportion of minorities, deteriorating housing stock, and low homeownership rates.

The organizations visited range in size from 4 to 44, with a median staff size of 12. Most often, organizations rely on full-time staff. However, some organizations rely on part-time or contract staff, such as the trainers in Chattanooga. Staff members involved in homeownership activities have a variety of responsibilities. Staff members conduct homeownership education as course instructors and also provide one-on-one counseling to program clients. They also participate in the lending process, either as loan processors or as underwriters. Staff members are responsible for any delinquency or foreclosure counseling that the organization offers. It is clear from our site visits that the trainers and counselors often develop close and ongoing relationships with their clients. Focus group participants often described these staff members as both caring and informative.

Table 6. Site Characteristics.

Site	Funding Category	Region	City Size	Year Founded	Staff Size
Salisbury NHS	A	South	21,000	1994	4.5
NHS of Richmond	A	South	200,000	1981	12
NHS of Santa Fe	A	West	56,000	1992	12
NHS of Milwaukee	A	Midwest	630,000	1993	20
Chattanooga Neighborhood Enterprise	B	South	150,000	1986	44
NHS of New Britain	B	Northeast	75,000	1980	7
NHS of New Orleans	B	South	500,000	1977	12
NHS Sacramento	B	West	375,000	1987	17

Many of these staff members come from the banking industry, where they have spent a number of years as loan processors or officers. Others have real estate or adult education backgrounds. They characterize their motivation for becoming housing counselors by noting the greater and more personal impact they are able to have on the lives of individuals. Many lament the lack of interest in low- and moderate-income borrowers among conventional lenders.

In addition to trainers and counselors, most organizations maintain one or more construction managers or specialists. These staff members help clients with home inspections and cost estimates for needed repair work. In many cases, these staff members help clients coordinate work to be done on their homes, inspect work as it is completed, and maintain escrow accounts to pay for the repair work as it is done. In organizations engaged in purchase-rehab-resale or housing development, these staff members also manage the construction or rehabilitation of properties. Sometimes, these staff members have special expertise critical to the needs of the local area. NHS of New Britain, for example, has an enormous problem with lead in the older homes and fire code compliance for multi-family dwellings. These problems make rehabilitation more expensive than new construction. Construction specialists there have developed special programs and funding opportunities for buyers of these homes, and have become involved in lobbying for changes in legislation that impacts the expense of fire code compliance in Connecticut.

Uses of Pilot funds

Grant amount and uses

Of the eight organizations included in our study, seven received \$500,000 and one (Richmond) received \$400,000 in Pilot funds (See Table 7). The amount of the funds used for operating expenses varied from a low of \$50,000 in Santa Fe to a high of \$150,000 in Chattanooga, New Orleans and Sacramento. All the organizations used operating funds to cover the expenses of administrating the Pilot or to hire additional staff such as counselors or loan originators to accommodate additional Pilot activities.

For the most part, capital monies were used to directly assist people in buying a home, although the form of the assistance varied among the organizations. All the organizations used Pilot funds to provide clients with below-market rate second mortgages. In some instances these loans were used to reduce the amount of the first mortgage while in others they were used to cover a portion of the down payment and closing costs. In Richmond and New Orleans, Pilot funds were used to capitalize loan loss reserves for consortiums of local lenders. Milwaukee and Sacramento also used Pilot funds for rehabilitation and/or emergency repair grants or loans. Finally, NHS of Sacramento used Pilot funds to provide matching grants for participants in a local individual development account (IDA) program. A very large proportion of the capital funds were used for loans rather than grants, as the program directors were interested in using the repayments to assist other future home buyers.

New and expanded activities

In the eight organizations studied, the Pilot funds were used to support a variety of new homeownership promotion activities. For example, Milwaukee NHS funded a new initiative called Home-buyer Assistance Program Initiative (HAPI). Under the program, clients may qualify for down payment assistance, below-market interest rate loans, or emergency repair funds. In Chattanooga, CNE used Pilot funds to support new housing construction by making construction loans to small developers. Once repaid, the funds will be used to provide down-payment assistance to other home buyers. NHS of New Orleans will use Pilot funds for the creation of a new loan consortium with local lenders. This consortium will make second mortgages available to qualified borrowers. Pilot monies will provide a loan loss reserve for these loans. The implementation of the consortium has been delayed, however due to lack of interest among the larger financial institutions in the city. At the time of our last visit, NHS of New Orleans was talking with the smaller local thrift institutions and hoped to have the consortium in place soon.

Pilot funds were also used to develop new marketing plans in several cities. NHS of New Orleans hired a consulting firm to develop a plan to attract young professionals to its target areas.

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NHS of Richmond's marketing plan led to the creation of the Home Ownership Center Orientation Class that provides potential clients with information about the services offered by NHS of Richmond. New Britain NHS used Pilot monies to publicize its homeownership and rehabilitation programs by means of a three-part documentary produced by a local television station.

Table 7. Grant amounts and uses.

Site	Grant Amount	Operating Funds	Use of Operating Funds	Capital Funds	Use of Capital Funds
Salisbury NHS (A)	\$500,000	\$100,000	Upgraded computers Upgraded software	\$400,000	Capitalized second loan fund
NHS of Richmond (A)	\$400,000	\$120,000	Hired staff for increased production Additional counselor Marketing study Purchase building for homeownership center	\$280,000	Set up a loan loss reserve; Interest rate buy-downs
NHS of Santa Fe (A)	\$500,000	\$50,000	Hired new loan counselor	\$450,000	Deferred second mortgages and amortizing loans
NHS of Milwaukee (A)	\$500,000	\$80,000	Hired additional counselor	\$420,000	Down payment and closing cost assistance Interest rate subsidy Emergency repair grants
CNE (B)	\$500,000	\$150,000	Supported counselor, loan originators, others	\$350,000	Loan revolving fund for Second mortgages
NHS of New Britain (B)	\$500,000	\$145,000	Hired bilingual counselors Public relations campaign	\$355,000	Rehab, purchase/rehab, and purchase/demo/construction loans;
NHS of New Orleans (B)	\$500,000	\$150,000	Purchased and rehabbed building for home ownership center Developed a marketing plan	\$350,000	Matching funds for lending consortium Loan loss reserve for consortium Grant assistance for persons with developmental disabilities Down payment assistance Second mortgage loans
NHS of Sacramento (B)	\$500,000	\$150,000	Hired new counselor	\$350,000	Healthy Neighborhood Initiative; Home construction and rehab; Down payment and closing cost assistance Matching funds for IDAs

Source: Applications and key informant interviews.

For the most part, however, Pilot funds were used to expand the activities that were already underway. The majority of the operating and capital funds were used to provide additional capacity to counsel and train prospective home buyers and to provide loan subsidies that enabled clients to purchase homes.

Assessment of the home ownership programs

Based on the experiences of organizations involved in Neighborhood Reinvestment's Campaign for Home Ownership, Neighborhood Reinvestment staff distilled a model of homeownership assistance called Full-Cycle LendingSM. Full-Cycle LendingSM includes six steps: partnership building, pre-purchase homebuyer education, flexible loan products, property services, post-purchase counseling, and neighborhood impacts. Table 8 summarizes the main components of the homeownership services offered by each of the eight organizations studied. Each of these services will be discussed in greater detail in the sections that follow.

Partnerships

As a rule, NWO homeownership promotion programs involve partnerships with other organizations. All of the organizations studied have a variety of relationships with private businesses, other nonprofit organizations, and public agencies that are critical to the success of their programs. The extent to which organizations rely on other partners, however, varies widely.

A comprehensive approach to neighborhood revitalization in New Britain

For Neighborhood Housing Services of New Britain, effective neighborhood revitalization requires a three-pronged approach. New Britain has suffered from a deteriorating commercial district and poor resident perceptions of safety, compounded by neighborhood instability due to low homeownership rates. To attract people back into the neighborhoods, NHS of New Britain leveraged Pilot and other funding to attract funding for their Neighborhood Revitalization Zone program, which helps local merchants restore their storefronts and lobbies the city council for infrastructure improvements. To make residents feel safer, the NHS received a Weed and Seed grant that has resulted in more officers on the street and the placement of a police substation in the neighborhood. Finally, homeownership promotion, both among owner-occupants and landlords (New Britain has a considerable number of multi-family units), is creating stability for this newly revitalized area. Pilot funds allowed the organization to design a special product to attract clients to buy in the neighborhood. As Executive Director Chris Traczyk noted, "when the Pilot came it was perfect, because we had the home buyer's education and needed to combine it with incentive to buy in the neighborhood, which was our original goal."

Table 8. Main components of home ownership programs.

Site	Recruiting	Pre-purchase Assistance	Lending	Post-purchase Assistance	Property Services	Other Services
Salisbury NHS	Word-of-mouth	Training Counseling	Pre-qualification First and second mortgage origination	As-needed, one-on-one	Inspection referrals Estimating Construction referrals	Purchase-rehab-sell (key properties only) Community Leadership Classes
NHS of Richmond	Advertising Word-of-mouth	Training Counseling	Pre-qualification First and Second mortgage origination	As-needed, one-on-one	Inspection Construction management Maintenance and repair workshops Insurance education	Purchase-rehab-sell Limited housing development Community Leadership Classes
NHS of Santa Fe	Word-of-mouth Direct mail Employer outreach Local workshops	Training Counseling	Pre-qualification First and second mortgage origination	Post-purchase classes As-needed, one-on-one	Inspection Construction management	Housing development Link buyers to private developers of affordable housing
NHS of Milwaukee	Word-of-mouth Advertising	Training Counseling	Pre-qualification Second mortgage origination	As-needed, one-on-one	Inspection Liaison Program Paint rebate Tool loan center	Community organizing
Chattanooga Neighborhood Enterprise	Word-of-mouth Targeted recruitment	Training Counseling	Pre-qualification First and second mortgage origination	As-needed, one-on-one	Real estate broker on staff (doesn't show properties)	Rental management Home rehabilitation Housing development
NHS of New Britain	Word-of-mouth Outreach through social organizations	Training Counseling	Pre-qualification Second mortgage origination	As-needed, one-on-one	Home repair and maintenance courses Inspection Construction management	Lead abatement Purchase-rehab-sell Purchase-demolition Limited housing development
NHS of New Orleans	Word-of-mouth Community seminars	Training Counseling	Pre-qualification First and second mortgage origination	As-needed, one-on-one	Inspection Construction management	Purchase-rehab-sell
NHS Sacramento	Word-of-mouth	Training Counseling	Pre-qualification Second mortgage origination	As-needed, one-on-one	Inspection Rehab assistance Repair and maintenance workshops	Limited housing development

While some organizations offer a wide range of homeownership services, from education to housing development, others specialize. At one extreme is NHS of Milwaukee, which is a member of a larger citywide coalition known as New Opportunities for Home Ownership in Milwaukee (NOHIM). Through the coalition, home buyers receive comprehensive pre-purchase counseling, lenders receive completed loan packages with all necessary underwriting documentation, and counseling agencies receive fees for each successful home buyer using their services. Milwaukee's NWO is the key housing counseling agency in this partnership. It depends on partner lenders to provide lending-related services.

On the other hand CNE, as an FHA, Fannie Mae, Freddie Mac, and Tennessee Housing Development Agency approved lender, is able to handle much of the mortgage financing itself. While CNE does provide training and other services to clients who originate first mortgages with one of CNE's lender partners, CNE, like Salisbury NHS, is able to originate a substantial number of first mortgages.

An effective partnership in Sacramento

Although many of the NWOs in our study had forged effective partnerships with local banks, government agencies and other nonprofit organizations one that stands out is the partnership between Sacramento NHS and US Bank. This relationship began with US Bank referring people to the Sacramento NHS for homeownership counseling. Then they began to take advantage of the NHA purchase/rehabilitation loan product, which allowed the Bank to originate loans to persons wanting to rehabilitate both single and multifamily properties. SNHS, for its part, did the property inspections, developed scopes of work, solicited bids from contractors, and oversaw the rehabilitation process. Later on, US Bank replaced the NHA loan product with a portfolio loan product but continued to rely on SNHS for property services and homeownership counseling. According to a bank representative, "they (SNHS) provide a great service for us for a small fee" and many dilapidated properties were rehabilitated. US Bank and SNHS also work together closely in serving the substantial Russian speaking population of Sacramento. The bank representative commented, "I have two Russian speaking loan officers and they have one. We are sending people back and forth all the time." Beyond the fees charged for their services, SNHS receives from US Bank a yearly donation of approximately \$50,000.

The NWOs in Sacramento, Santa Fe, New Britain, New Orleans, and Richmond seem to take a more middle-of-the-road approach towards partnerships. These organizations, which are more typical, offer comprehensive counseling and education for potential home buyers, and then help these clients identify and access the most appropriate mortgage products, which may or may not be offered by the organization itself. Most often, these organizations depend on partner lenders to offer the first mortgages.

It seems that there is no one single successful partnership model. Specializing in certain aspects of providing homeownership services can be successful if there is a strong, formalized coalition of organizations that provide the gamut of homeownership services. Diversified partnerships allow organizations to specialize. Specializing allows some organizations to concentrate on doing a

few things really well rather than spreading itself thin in trying to provide all services to all clients.

Regardless of their type, partnerships are key to successful implementation of homeownership promotion. Partnerships with lenders in the community are the most common type. Broadly speaking, the establishment of successful partnerships seems to depend on several important factors. These include the stability of key staff in both the NWO and in the lending institutions; the explicit understanding of the goals, motivations, and capacities of everybody involved by all parties. Overall, organizations have been quite successful in establishing and maintaining strong partnerships with many different entities. The Pilot support has been instrumental in this regard. This has resulted in better loan products and services for the organizations' clients.

Recruiting and marketing

The NWOs visited relied on several marketing strategies. These include word-of-mouth; outreach to civic organizations and clubs; referrals from partner lenders and real estate brokers; presentation and marketing at community events; media campaigns; and printed literature. Without a doubt, the most successful form of recruiting and marketing among the NWOs is word-of-mouth.

Most of the organizations studied enjoyed a positive reputation in the neighborhoods in which they work, and depended on former clients to spread the word about their services. The importance of word-of-mouth advertising suggests client satisfaction with the services they receive from the NWOs is critical to the future flow of new clients.

Stepped-up marketing in Santa Fe

Santa Fe NHS largely relies on "word of mouth" in attracting new clients. They found, however, that many of these clients were not "buyer ready" and decided to embark on an add campaign to attract more buyer ready clients. This campaign included radio spots, newspaper advertisements in both general circulation and employee newspapers, and outreach efforts to local churches. The staff reports that this ad campaign was very successful. The number of persons seeking counseling and training increased by an estimated 50 percent and they attracted a higher percentage of buyer ready clients. Moreover, this increase in clients continued even after the conclusion of the ad campaign.

The second most popular form of recruitment and marketing is outreach to civic organizations such as churches, civic clubs, community development corporations, and neighborhood organizations. Pilot funding has enabled these organizations to hire more staff to make presentations at these events. In the case of Richmond, staff suggest that presentations to civic groups increased the number of requests for home improvement loans. Most reported that presentations at local churches yielded the best results. In Richmond, more aggressive outreach to organizations, such as CDCs, has been an

effective marketing strategy. In Salisbury, working with social service offices has been a successful form of recruitment.

Making appearances at events such as fairs, expos, and community festivals or holding block parties has elevated the amount of public exposure received by these organizations. The NWOs in Milwaukee and Salisbury have made this approach an important part of their marketing strategies. Almost all the organizations also relied on local lenders and real estate professionals to make referrals to the NWOs. Outreach to lenders and real estate professionals has helped NWOs communicate the services provided and increase the number of referrals.

Results from media campaigns such as television spots, newspaper ads, radio spots, flyers, and mailings were another popular form of marketing, but results from these efforts were mixed. For example, the Milwaukee NWO spent \$1,500 in advertising but found that it resulted in few new referrals. Yet the Santa Fe NWO had excellent results from their ad campaign, experiencing about a 50 percent increase in new clients. The New Britain NWO also reported an increase in the number of persons signing up for their home buyer's education course after a media campaign.

Clearly, word-of-mouth is important in recruiting new clients. This means that client satisfaction with the services they receive is critical to the future flow of new clients, but more active marketing is also important. Outreach to community organizations appears to be a successful form of marketing and ad campaigns have also been found to be successful in some cities. Matching marketing to local conditions seems to be important in successful client recruitment.

Client assessment

The NWOs handle clients with wide-varying levels of homebuying preparedness. Some clients go through homeownership programs quickly because they have good credit and adequate savings. Other clients are not as prepared and need to establish or repair credit problems or save for a down payment. The organizations' preliminary assessment of clients' homeownership preparedness is important in addressing specific client needs and tailoring specific services to address them.

Attention to customer satisfaction in New Orleans

NHSNO staff members believe that the key to an effective homeownership promotion program is an emphasis on client satisfaction. This means that each customer is treated as an individual with a unique set of assets and needs. The NHSNO staff seeks to develop a personal, long-term relationship with each client by carefully listening to their desires and needs and by responding accordingly. The NHSNO staff also strives for honesty and openness in their relations with clients. They seek to encourage clients with obstacles to purchasing a home, without providing unrealistic expectations. This, staff members suggest, engenders trust between clients and staff and leads to high levels of client satisfaction. Given the importance of "word-of-mouth" for attracting new clients, customer satisfaction is particularly important in the success of homeownership assistance programs.

NWOs have developed different mechanisms to deal with the overwhelming demands that one-on-one counseling places on counselors. For instance, the NWOs in Richmond, Sacramento, and Santa Fe have developed introductory orientation classes that allow interested participants to learn about the services offered and to learn about the basic requirements of home purchase.

This helps clients understand whether they are ready for home ownership and helps staff the kind

A model for routing clients in Milwaukee

Milwaukee NHS (MNHS) has put in place an effective mechanism to route clients on the basis of their preparedness for home purchase. MNHS clients are first required to attend homeownership education classes. There, clients receive their credit report with a cover sheet that indicates whether the person falls into the fast-track or long-term category. Fast track clients are typically 6 months away from purchasing a home and, after receiving their certificate of class completion, go to the housing counselor for one-on-one counseling. The housing counselor helps fast-track clients choose the right lender, determines if the client qualifies for any grants, and compiles the necessary documentation, including W-2s and pay stubs. The file that the MNHS housing counselor compiles is fairly complete, making a lender's underwriting job a lot easier. The clients who are designated as long-term continue to work with the MNHS trainers on a one-on-one basis to improve their credit rating, paying off debt and establishing positive credit lines. Once the credit-related, budgeting and other issues are resolved, the client is then considered "fast-track" and referred to the MNHS housing counselor. This process has made the pre-purchase education and counseling process considerably more efficient.

of services needed by individual clients.

NHS of Richmond, for example, uses their orientation class to steer clients directly into the Fastrak class or to refer them to another agency for more intensive credit counseling. Similarly, NHS of Sacramento uses an initial orientation to help clients decide if the home buyer's club or the eight-hour course is most appropriate for them. Trainers are quick to note, however, that the orientation is not a substitute for one-on-one counseling. Rather, it is seen as a method for improving efficiency and for placing more information in the hands of clients.

Most NWOs have potential clients fill out a profile before seeing a counselor to collect basic customer data. The Santa Fe NHS uses a screening process to separate those that can be fast-tracked for home ownership from those that need financial literacy training. Those in Milwaukee, Salisbury,

Chattanooga, and New Orleans all schedule initial intake meetings with clients before sending them to training. Salisbury, New Orleans and other organizations conduct a pre-qualification analysis during this initial meeting to help clients determine what type of mortgage, and thus what kind of training, they will need.

Client screening is an important component of homeownership promotion programs. Screening allows for the efficient and effective evaluation of client needs. Pre-qualification screenings, or similar types of initial client need evaluations, appear to be an effective practice and should be recommended to all NWOs.

Pre-purchase counseling

Pilot funds had a positive impact on the internal capacities of the sponsoring organizations by enabling them to hire additional trainers and counselors. Most organizations reported increased demand for pre-purchase group training and one-on-one counseling and the Pilot allowed them to meet this greater demand by increasing organizational capacity. Many organizations added trainers and counselors to serve the needs of non-English-speaking clients.

Each of the organizations visited offers 8- or 12-hour homeownership education classes. During the Pilot period, some expanded their curriculum, and most updated their materials.

At the time of the first site visit, only the Sacramento NHS used the “Realizing the American Dream” curriculum developed by Neighborhood Reinvestment. Many other organizations cited the greater cost compared to other curricula as being a deterrent to its use. However, Pilot funds have allowed more of the NWOs to acquire the “American Dream” materials, and all report being highly satisfied with it. An added attraction is that they are printed in English and Spanish.

An effective training practice in Santa Fe

Santa Fe NHS has in place effective homeownership training strategy. The strategy has three key components. NHS has developed educational materials that are appropriate for targeted clientele, in terms of content, level of literacy, and language. NHS developed its own training manuals for this reason. Also, NHS relies on trainers with a background in adult education. These trainers are likely to use different techniques to motivate and engage clients. They also make training dynamic and interactive. Finally, SFNHS staff strive for trusting personal relationship with clients. This is considered important in fulfilling client needs both before and after home purchase.

Meeting the individual needs of each client in Salisbury

During the Pilot period, Salisbury Neighborhood Housing Services developed a Home Buyer's Club for those clients whose needs were not being met with existing training and counseling. Salisbury NHS partnered with the city's social services department and the local campus of the University of Maryland to offer the two-year program. The club meets once a month to share experiences, offer support, and receive general instruction. In addition, representatives from each of the three partners take responsibility for individual club members, offering them one-on-one assistance with issues like budgeting and credit repair. The club helps participants set up a savings account, and provides matching funds for up to fifteen club members.

One organization, Salisbury NHS, has started a home buyer's club since the inception of the Pilot. The organization targets this effort to people who expressed interested in home purchase, but through client screening were not able to purchase homes for various reasons—lack of finances, serious credit issues, and lack of information. This training is expected to last a minimum of two years.

Most of the NWOs have added material on predatory lending to their training courses, although the degree to which they do so ranges from a brief mention in homebuyer's classes, as in the case of Milwaukee NHS, to a full workshop that addresses predatory lending, as in

Sacramento. All of the organizations see predatory lending as a major problem in their communities.

Most of those interviewed also stressed the positive impacts of the homeownership training and individual credit/budgeting counseling for those who do not buy homes. The Pilot program has allowed the NWOs to counsel and train more clients in acquiring important life skills including budgeting, saving for maintenance and unanticipated life crises. Clients also learn how their actions affect their credit reports and how to check and request corrections in those reports. By teaching 'financial fitness' skills, the NWOs see more competent home owners and, in the case of those that needed time to reestablish good credit or build credit, more people who are buyer-ready by the time they get to the homebuyer's class.

Financing home purchases

The loan products offered by the eight organizations varied widely. Some organizations, like CNE and Salisbury NHS, originated large numbers of first mortgages, while other organizations, like NHS of Milwaukee, did not originate any loans. Loan products include first and second mortgages offered by the NWOs themselves, as well as products offered by NWO partners. In all instances, NWOs often combine different types of loan products to come up with financing packages best suited to client needs.

For those organizations that do originate first mortgages, the loans were typically sold to Fannie Mae, Freddie Mac, or NHTSA. NHTSA loans are normally serviced by the originating organization. NWOs in Chattanooga, Salisbury, and Sacramento provide servicing for NHTSA and other loans.

Finding a niche is key to the long-term viability of Richmond NHS

Richmond NHS is facing increasing competition. There are a number of new entities in the city that offer some type of homeownership training. These other programs are often not as well structured, telephone-based and less demanding. At the same time, lenders are offering loan products that are more affordable and are approved faster than the comparable products offered by Richmond NHS. Richmond NHS believes that the appropriate response to increase competition is for it to find its own niche or comparative advantage. It feels it has found its unique niche in making purchase-rehabilitation loans and down payment assistance loans. These two loan products are unique and not likely to be offered by lenders or other counseling organizations.

Other organizations, like NWOs in New Orleans, Sacramento, Richmond and Santa Fe, have developed loan pools using local CDBG, HOME, or other local funding sources. These loan pools are used to offer a limited number of first mortgages, usually to low-income households purchasing homes in the targeted neighborhoods, or meeting other qualifications. More often, these loan pools are used to offer gap financing, rehabilitation assistance, down payment assistance or closing cost assistance in the form of below-market interest rate second mortgages.

These second mortgage products represent the majority of lending activity conducted by NWOs. They are critical in helping low- and moderate-income households meet the requirements for first mortgages provided by private lenders, and may further reduce the overall cost to the home buyers by eliminating the need for private mortgage insurance. Further, in some organizations, like New Britain NHS, this type of financing is critical due to the substantial renovation or lead abatement that is required for homes to meet local code requirements. While the second loan products offered vary greatly within and among organizations, common features include income restrictions, below-market interest rates, and required purchase within specific targeted neighborhoods.

Salisbury NHS offers a unique tandem loan that serves two purposes. The tandem loan is a second mortgage that normally covers 20 percent of the purchase price of a home. The loan is guaranteed by the SNHS and allows the home buyers to forego private mortgage insurance, the first purpose of the loan. The second purpose of the loan is to offer financial incentives for those who purchase homes in their target areas. The interest rate of the tandem loan is set so that the combined rate on the first and second mortgage is very low—5.5 percent, a rate at least 100 basis points lower than the lowest competing rate. SNHS expects to make 39 of these loans using Pilot funds, selling half of the loans to NHSA and retaining the servicing on all of the loans.

Overall, NWOs were found to be extremely creative in working with flexible products they offer themselves and those offered by their partners. Because of this creativity and flexibility, organizations have been able to extend home buying opportunities to low- and moderate-income persons who would have otherwise had difficulty purchasing a home. In many instances, the Pilot was instrumental in creating such flexibility. For example, many organizations used Pilot funds to create or enhance loan pools. Using loan pools of Pilot, CDBG, HOME, or other local funding sources allows NWOs to originate more volume of flexible products. Loan pools are an ongoing source of gap financing, rehabilitation assistance, down-payment assistance or second mortgages to facilitate home ownership for low- and moderate-income clients.

An effective lending partnership in Chattanooga

Chattanooga Neighborhood Enterprises (CNE), has established a very innovative partnership with lenders. CNE has established a loan warehouse program, offered by a consortium of local lenders. This program provides CNE a \$1 million line of short-term credit. CNE uses this to cover the period between loan origination and the sale of the loan on the secondary market. All lenders who contribute to this program get CRA credit for each loan in the warehouse regardless of how long it stays there or how much they have contributed to the loan fund.

Property services

The property services offered by NWOs might be grouped into two categories: those complementing home ownership generally, and those that are location-specific. Affordable

housing, especially in targeted neighborhoods, is often in need of rehabilitation. Almost all of the organizations visited offer inspection services for home buyers, or at least maintain a list of reputable home inspectors in the area. These services are typically offered to all clients. Further, many organizations have full-time construction managers to help residents estimate, schedule and undertake needed renovations. At a minimum, the NWOs visited offer some sort of construction advice for home owners seeking to undertake rehabilitation on their homes.

Most of the organizations have housing problems unique to the local area. For example, New Britain has a substantial fire code compliance problem, with its multi-family dwellings, while Sacramento has a considerable boarded and vacant house problem. These local conditions drive the choice of property and other services offered by the NWO.

Post-purchase counseling and training

Post-purchase counseling and training is as an important part of the Full-Cycle LendingSM process. Going through pre-purchase training and counseling and purchasing a home are only the first steps in the long-term homeownership experience. Offering additional post-purchase training in areas such as maintenance can preserve or increase the value of the dwellings purchased. Similarly, when needed, providing delinquency counseling can help clients remain in their homes allowing them to achieve the benefits of home ownership.

Several organizations offer some form of post-purchase training in the form of classes. However, with one exception, none of the organizations offer a formal post-purchase curriculum such as workshops on home maintenance, budgeting, and predatory lending on an ongoing basis. Most NWOs visited do offer delinquency and default counseling to borrowers who fall behind on their payments.

The most prevalent form of post-purchase training is in the form of home maintenance. Sacramento and Richmond both offer home maintenance courses. Salisbury, New Britain, Milwaukee, and Chattanooga are all planning to offer home maintenance classes in the future. Some of the organizations provide home owner maintenance loans in tandem with the training.

Though several of the NWOs cover personal budgeting in post-purchase training, attention to this topic needs to be expanded. Sacramento and New Britain conduct homeowner success workshops that cover budgeting and Richmond is working on offering post-purchase budget counseling.

Due to increased problems with predatory lending, some NWOs have included predatory lending as a topic covered in post-purchase training. More often than not, however, predatory lending is covered on an as-needed basis in one-on-one counseling. This, however, is reactionary, occurring only after the client has run into financial problems.

One obstacle to offering delinquency counseling is that most organizations do not receive regular and ongoing information on the loans they do not service. Thus NWOs may not know that clients have fallen behind on payments. In many instances, the delinquent clients approach the NWO for help only after being contacted by a collection agency. In most of these instances, NWOs can do little to help because they are too far behind on their payments.

Typically, delinquency counseling programs focus on resolving a client's budgeting difficulties and on obtaining forbearance or loan restructuring from the lender. A few offer financial assistance. NWOs in Sacramento and New Orleans both have a formal emergency fund to provide temporary assistance to borrowers who may fall behind on their payments due to circumstances beyond their control, such as being laid off from a job or a serious health problem.

Post-purchase training and delinquency counseling is an important, but poorly developed, step in the Full-Cycle LendingSM process. The activities that the NWOs have planned around home maintenance are well organized and well attended. The NWOs are doing a better job of providing post-purchase training than prior to the Pilot. For many NWOs, however, the delinquency counseling programs are offered on an informal and ad hoc basis.

Facilitators and obstacles to home ownership promotion

Facilitators

Those interviewed identified a number of facilitators of homeownership promotion efforts. These include factors both internal and external to their organization.

Technical assistance. To assist the Campaign and Pilot sites in achieving their goals, Neighborhood Reinvestment provides several types of technical assistance. Neighborhood Reinvestment Training Institute has regular courses on developing homeownership promotion programs as well as home-owner education methods. Trainers and other staff members from each of the organizations regularly attend these semi-annual training institutes. Further, Neighborhood Reinvestment has developed an extensive array of informational and marketing materials that are used by Campaign and Pilot organizations.

Staff quality. The number and quality of staff assigned to homeownership promotion programs have been identified as facilitators. Santa Fe has found that with more personnel there is a synergistic efficiency in the amount of work done and the number of people educated. The NWO in Richmond has emphasized staff training because they see a connection between more knowledgeable staff and more knowledgeable clients. Staff from New Britain, Milwaukee, and Chattanooga NWOs also mentioned a relationship between the quality of the staff and quality of the services rendered.

Quality of education. The quality of the education provided was also identified as a facilitator of effective homeownership programs. Improvements in pre- and post-purchase counseling and training curricula have led to better-served clients and adding multi-lingual training has expanded the number of clients served. Better financial fitness classes have led to more people being prepared for home ownership and education on predatory lending has kept people from becoming victims of unscrupulous lenders. When people leave classes feeling good about what they learn, they are apt to talk to their neighbors and friends about the services provided by the NWOs, thereby improving word-of-mouth marketing.

Effective partnerships. Those interviewed stressed the importance of effective partnerships in successful homeownership promotion efforts. These include agreements between NWOs and government agencies, community groups and for-profit entities—such as lenders, insurance companies, real estate agents and others. Some of the organizations found that good partnerships lead to more organizational efficiency. Sacramento NHS found that an improved relationship with lenders, insurance companies, and real estate brokers has facilitated the speed with which they process clients. One staff member stated, “It would be impossible to do some of the work that we’ve done without those [improved] relationships.” Good relationships with community groups and civic organizations increase organizational efficiency by aiding marketing and recruiting. Overall, partnerships, especially those with for-profit entities such as lenders, are believed to provide a good balance to the social mission of many NWOs. In addition, partnerships allow organizations to make available more affordable loan products to their clients.

However, not all partnership agreements are believed to be equally effective. For instance, Milwaukee NHS stressed the importance of formalizing partnership arrangements in writing. Spelling out expectations and responsibilities for all partners can avoid problems and misunderstandings as programs are implemented. In Chattanooga, CNE stressed the importance of establishing easily replicable partnerships. The more that partnerships are set up under the same set of rules, the easier they are to replicate. Partnerships can also present challenges, however. The Santa Fe NHS staff stressed the importance of choosing partners carefully and making sure they have something to offer. Time and energy can be wasted on ineffective partnerships.

Obstacles to implementation

Those interviewed also identified a number of obstacles to implementing homeownership promotion programs. These include the lack of affordable housing, the increasing costs associated with rehabilitation, unrealistic expectations and lack of knowledge among potential home buyers, the inability to track clients and organize data, staff turnover, lack of interest among real estate agents, the characteristics and complexity of local regulation and tax codes, and predatory lending.

Lack of affordable housing. In several cities, including Chattanooga and Santa Fe, a lack of decent, affordable housing units was identified as a major obstacle. Housing prices were rising and most affordable units are in very poor condition. This has led several Pilot organizations to expand the supply of affordable units by developing new units, purchasing, rehabilitating and reselling existing units and, in the case of Chattanooga, offering below-market construction financing to builders.

Increasing costs of rehabilitation. Another obstacle to expanding access to home ownership is the increasing costs of housing rehabilitation due to both increases in material costs and, in some places, a shortage of available contractors. These cost increases mean that the after-rehabilitation sale price is beyond what many moderate-income families can afford. In some cities, such as Richmond and New Britain, much of the affordable housing stock requires substantial rehabilitation. In many instances, the purchase price plus rehabilitation costs are higher than the market value of a dwelling, necessitating additional subsidies.

Unrealistic expectations among buyers. Another obstacle identified by those interviewed was unrealistic expectations among potential home buyers. These unrealistic expectations often concern the type of house that can be afforded. Some potential home buyers can only qualify for loans that will allow them to buy homes at the very bottom of the market and these homes are not what potential buyers have in mind. As one person interviewed in Chattanooga suggests, “it is important to teach and develop realistic expectations about the type of house they can afford.”

Communication. Communicating with potential customers is another obstacle mentioned by several of those interviewed. Many potential homebuyers do not think they can afford to buy a home or do not understand the benefits of home ownership. Finding the right communication channels and the right argument to interest these people in home ownership was said to be a major challenge. To overcome this lack of communication, NWOs are putting more emphasis on marketing and recruitment.

Tracking clients. Difficulty in tracking clients was offered as an obstacle by several of those interviewed. Some staff members expressed frustration with the NeighborWorks® 2000 data tracking software. Although the software may be useful to Neighborhood Reinvestment for tracking purposes, its lack of flexibility was seen as a problem for client tracking. Some of these difficulties may be due to lack of familiarity with the software. Better training may solve these issues. NWOs fear that failure to track clients properly may be leading to clients leaving the program before the training and/or counseling is completed.

Staff turnover. Staff turnover was also identified as an obstacle to successful homeownership promotion programs. In three of the sites we visited there was a change in executive director during the Pilot period. Losing such an important staff member can interrupt program

implementation or result in a lack of continuity. Moreover, staff members are forced to take up the slack until new directors can be brought on. Staff members already feel overworked and staff turnover can lead to an increased workload that strains them even further. In addition, staff turnover affects partnerships with other organizations. When the Richmond NHS experienced a loss of staff members, the local real estate brokers and lenders didn't know whom to contact to get things done, so they stopped making referrals.

Working with real estate brokers. More broadly, real estate broker lack of interest in showing low-cost homes was identified by both program staff and focus group participants as a major obstacle. One real estate broker interviewed suggested that this was due to a belief on the part of many real estate brokers that they cannot make enough money serving this market. Others were said to avoid the inner city due to fear of crime. Some of the NWOs, however, are finding that by fostering good relationships through open dialogue, informational breakfasts and educational sessions, agents are more willing to work with the potential home buyers served by NWOs.

Regulatory burdens. The complexity of local tax codes and building regulations may also be an obstacle. Staff members interviewed mentioned that in Salisbury residents in the target neighborhoods pay both city and county taxes, while those who move beyond the city limits pay only county taxes. This hindered redevelopment efforts in targeted central city areas, which have a poor reputation to start with. Respondents in New Britain identified cost burdens imposed by what they considered to be the rigid enforcement of overly restrictive fire and building codes. These codes increase the time and cost of housing rehabilitation. New Britain NHS has led a statewide effort to revise these codes.

Predatory lending. Finally, predatory lending was mentioned as an obstacle to the long-term viability of homeownership promotion programs. Staff may work hard to assist a family purchase a home only to see the family come back some time later on the verge of losing the house to a predatory lender. Informed home owners are seen as one solution to this problem. As mentioned earlier, most organizations have incorporated some coverage of predatory lending practices in their pre-purchase training curricula. However, with a few exceptions, organizations are not working in a coordinated and formal manner with other entities or organizations in their localities to eradicate this problem. For example, organizations could with other housing advocates to support the passage of national, state and local legislation to outlaw predatory lending.

CHAPTER 4: IMPACTS OF THE HOMEOWNERSHIP PILOT PROGRAM

The Home Ownership Pilot program was designed to have positive impacts on the participating organizations, the areas targeted by them and low- and moderate-income families interested in home ownership. Our overall research design seeks to identify these impacts using a variety of research techniques including interviews with program staff and other knowledgeable professionals, focus groups with program participants, the collection of secondary data on neighborhood characteristics and surveys of program participants at two points in time. The impacts discussed in this report are based on interviews and focus groups with program participants. The final report will contain additional evidence on impacts from the secondary data and participant interviews.

Impacts on the organizations

Our research suggests that the Pilot program has had two types of impacts on the organizations involved: impacts on internal capacity to conduct effective homeowner assistance programs and impacts on external partnerships with other organizations.

Impacts on internal capacity

Staff interviewed during our site visits identified several positive impacts of the Pilot on the internal capacity of their NWOs. First, Pilot funds allowed their organizations to hire additional staff, which, in turn, allowed them to increase their capacity to assist a larger number of clients. In Milwaukee, New Britain, New Orleans, Salisbury, Santa Fe, and Sacramento, additional trainers and/or counselors were hired, allowing expansion in the number of homeownership training classes offered and a reduction in the waiting time for individual counseling. In Sacramento and New Britain, Pilot funds supported the addition of a Spanish-speaking counselor, allowing homeownership training and counseling to be offered in Spanish as well as English and, in Sacramento, Russian. In Chattanooga and Richmond, Pilot funds were used to hire staff to assist with loan processing. Chattanooga, Richmond, and Sacramento also used Pilot monies to provide additional training for existing staff members. It is clear that the Pilot funds led to important improvements in the capacity of the organizations to provide homeownership assistance.

Second, the capacity enhancements supported by Pilot funds allowed many of the organizations studied to expand the geographic areas served. In Santa Fe, for example, the Pilot funds allowed Santa Fe NHS to open up a satellite office in Taos and to offer its homeownership services to a four-county area. Similarly, Pilot funds led the Sacramento NHS to go beyond the city limits and serve the entire county.

Third, Pilot funds led to important improvements in the marketing of homeownership services. As described earlier, the NWOs in Chattanooga, New Britain, New Orleans, and Richmond used Pilot funds to develop new marketing strategies for promoting their homeownership services. Many of those interviewed felt that improved marketing was key to increasing the number of clients trained and ultimately the number of new home owners produced.

Fourth, many of those interviewed felt that the Pilot funds had substantially increased their capacities to provide affordable loan products. The funds allowed them to make more and larger loans, thus allowing them to serve households that otherwise would not have been able to purchase a home. As described by one staff member in Santa Fe: “The Pilot has let us do bigger loans. It allowed us to build our capital base.” Most of the organizations studied have used Pilot funds to capitalize loan funds for down payment assistance or second mortgages, thus repayments will be recycled to assist additional home buyers.

In interviews with Neighborhood Reinvestment staff members at the beginning of our evaluation, several expressed concern that the Pilot may have unintended negative impacts on the participating NWOs. Chief among those concerns was that Pilot funds may cause organizations to expand too rapidly and that, in an attempt to meet production goals, the quality of the services offered might suffer or that loans would be given to those with a relatively high likelihood of defaulting. In our evaluation we found little evidence that the Pilot caused the organizations to expand too rapidly. Moreover, although most of those interviewed did feel pressure to meet their production goals, this pressure was seen as “part of doing business.” None of the staff interviewed felt that the production goals negatively impacted the quality of the services they provide or pushed them into making risky loans. As expressed by one staff member in New Orleans, “we can’t cut corners. Our reputation is too important. Besides the staff members would walk if there was an overemphasis on production over quality.”

Impacts on external partnerships

As described above, all the homeownership programs studied rely on partnerships between the NWOs and other local public, nonprofit and private organizations. Those partnerships are crucial to the success of the programs. Our interviews with NWO staff indicate that the Pilot funds helped both strengthen existing partnerships and, to a lesser extent, create new ones. In several sites Pilot funds were said to have enhanced NWO relationships with local financial institutions. The availability of additional funds for silent second mortgages, down payment assistance and loan guarantee funds has meant that NWOs can participate in more loans and this raises their status among local lenders. A representative of a local financial institution in Santa Fe commented, “Having [Pilot] funds available has given NHS more leverage in working with lenders.” A representative of a lender in Sacramento commented, “They [NHS Sacramento] facilitate our purchase-rehabilitation loan program. Without them we wouldn’t have that program.”

The development of new partnerships directly related to the Pilot program was limited by the short time period between the announcement of funding availability and the deadline for submitting proposals. However, several new partnerships were credited specifically to the Pilot. CNE, for example, developed new partnerships with three minority contractors as part of its new construction loan program funded with Pilot monies. CNE staff members also anticipated additional partnerships as for-profit developers begin to see the potential of the central city housing market and team up with CNE. Similarly, the Salisbury NHS used Pilot funds to leverage new mortgages from lenders, many of which were new partners.

Impact on neighborhoods

One of the objectives of the Home Ownership Pilot was to improve neighborhoods through increasing home ownership rates. This is particularly true in the Category B sites where neighborhood improvement projects were funded with Pilot funds. Our final report will contain objective indicators of neighborhood change in the four Category B sites. In this report we present subjective assessments of neighborhood change as seen by those interviewed in each site.

Before summarizing the comments of those interviewed, it is important to acknowledge that it is impossible to attribute neighborhood change to the Pilot alone. Without carefully chosen comparison areas, all that can be said is that the Pilot may have contributed to any perceived or documented changes. Pilot funding is only one of several funding sources being used to promote home ownership and to make other improvements in the target areas. Similarly, the economy during the Pilot program period was expanding rapidly and may have had a lot to do with any improvements noted.

When interviewees were asked about the Pilot's impacts on local neighborhoods, the most frequent response was that it is too early to tell. Many of the interviewees felt that two years was too short a time to expect any major changes. Having said this, many went on to suggest that they have seen early signs of neighborhood revitalization.

Staff members interviewed in all four Category B sites believe that the Pilot has had positive impacts on the targeted neighborhoods: the Broad Street neighborhood in New Britain, the Freret and Holy Ghost neighborhoods in New Orleans, the Highland Park and Southside neighborhoods in Chattanooga and the Oak Park area in Sacramento. Those interviewed in New Orleans thought that the Pilot had a larger impact on the Freret neighborhood than it did on the Holy Ghost neighborhood. The Freret neighborhood, for example, has seen several new businesses. The level of abandoned properties and crime in the Holy Ghost neighborhood led to trouble selling the homes that were bought and rehabilitated in the area. In New Britain, those interviewed cited fewer absentee landlords and an improved neighborhood appearance while

lower levels of crime and drug sales were cited in the target areas in both Salisbury and Sacramento.

Many of the Category A organizations also felt the Pilot was having a positive impact on local neighborhoods. In Santa Fe, several of those interviewed pointed to significant improvements to the Southwest section of the city. In Milwaukee, increased home ownership within the target communities was seen as causing greater neighborhood pride among residents, better maintenance of homes, and an increase in property values. In Richmond, several of those interviewed believed area residents are showing more pride in their neighborhoods and are more willing to spend time outside their homes. Finally, in Salisbury, the home ownership rates in the Camden and Church Street neighborhoods have increased, but their third target area, Westside, suffers from a poor housing stock and a bad reputation that has been difficult to overcome. In both Milwaukee and Chattanooga, at least one of those interviewed expressed concern about signs of the displacement of lower-income renters.

Impacts on families

The ultimate measure of the success of the Pilot program is its impacts on the families served. Our research is designed to assess those impacts in three ways: interviews with program staff, focus groups of program participants and a combination of in-person and follow-up mail surveys with program participants. In this report we include the results of the interviews with program staff and the focus groups with program participants. The results of the surveys of program participants will be included in our final report on the Pilot.

An analysis of the comments made by new home owners in the focus groups held suggests that the Pilot program has had a number of important impacts on the homebuying families. The four most frequently mentioned impacts concerned increased control over the home environment, increased financial security, additional space for the family and an enhanced self-esteem.

The most frequently cited answer to the question, “What has owning a home meant to you and your family?” concerned increased control over the living environment. The new home owners talked having the freedom to make improvements to their homes and about not having to worry about being forced to move. Typical comments on this theme include:

“If I want to plant a tree, I can plant anything I want.”

“You don’t have to ask permission, you can get whatever you want and you don’t have to surrender it at the end of the lease.”

“You can have pets!”

“The major thing is stability, just knowing that the house is mine. I don’t have to worry about the rent being raised. I can stay there as long as I want.”

The second most frequently mentioned impact was greater financial security. Many focus group participants were excited about building their own financial asset rather than just paying rent. Typical comments include:

“You’re not paying someone else’s bills, buying someone else’s dream, you’re buying your own dream.”

“When you have your own home you can do whatever you want in the home and can get something out of it when you want to sell. You get some return on what you spend every month.”

“Everything I do is to make the home better. I have a real sense of financial security.”

The third most frequently mentioned impact of owning a home was having more space and a safer home for the family. Some focus groups participants liked the additional space they had in their homes while others liked the yard space for their children and for family events. Typical comments include:

“We have lots of BBQs now. I like that my daughter has a yard to play in. Now she can’t run out in the street.”

“I have a family of six. We needed the room to live comfortably.”

“Now I feel a lot safer. I just go home and have a big yard so I don’t have to worry about neighbors. My children go outside and play, it’s a totally different environment where I don’t have to worry about them getting hurt.”

The fourth most frequently mentioned impact of owning a home was having an improved self-esteem. Many focus group participants talked about how purchasing a home made them feel that they had accomplished something significant in their lives and how it gave them more confidence that they could achieve other goals. Several participants also mentioned that their children felt better about themselves. Typical comments include:

“You get respect. You feel better about yourself. So do our kids. They feel like mom and dad make something of our lives, they bought a home. They are proud and so are we.”

“It does something to my heart when my four-and-a-half year old boy runs through the house and says, ‘this is my house.’”

“Owning a home is truly a blessing. I still just about cry when I pull into the garage.”

Neighborhood Reinvestment 's Home Ownership Pilot: Implementation, Outcomes and Impacts

Although a large majority of the impacts identified by focus group participants were seen as positive, some participants tempered their enthusiasm for home ownership by mentioning several negative impacts. Several participants, for example, talked about the increased responsibility of owning a home, particularly the responsibility for making repairs. One person commented, "It's given me a sense of pride, but I have to foot the bill for what goes wrong. You are more responsible." Most of the other complaints were confined to those who purchased properties in need of substantial rehabilitation and duplex units. The rehabilitation process was often more difficult and time consuming than anticipated and several duplex owners had trouble with renters in the second unit.

The program staff members in the eight sites visited were also asked about the Pilot program's impact on participants. Many of their responses were similar to those of the focus group participants. Home buyers were said to have more and better living space, a sense of satisfaction and pride in their homes and greater sense of control over their living environments. In some cities, however, staff members are not sure about the economic impacts of ownership. For instance, in Chattanooga, CNE staff suggested that it was too early to tell if the property purchased will appreciate over time.

The program staff interviewed also offered that the Pilot program has allowed them to assist many families who could not otherwise have purchased a home. For instance, CNE used Pilot funds to enable families with outstanding medical bills to pay them off, improve their credit ratings and purchase homes. Many of the staff members interviewed also stressed the positive impacts of the homeownership training, even for those who do not buy homes. The Pilot program allowed additional persons to acquire important life skills including budgeting, saving for maintenance and unanticipated life crises. They also learned how their actions affect their credit reports and how to check and request corrections in their credit reports.

CHAPTER 5: SUMMARY AND DISCUSSION

This report presents an assessment of the outputs, process and impacts of Neighborhood Reinvestment's Home Ownership Pilot program designed to expand the ability of the participating NWOs to assist first time home buyers. The major objectives of our assessment of the Home Ownership Pilot were to: document the number of persons receiving homeownership counseling, the number of first-time home owners assisted and the total direct investment in housing; describe and assess the implementation of the Pilot; and identify the Pilot's impacts on the participating organizations and both the neighborhoods and households served. The following summary and discussion of key findings is organized by these three objectives.

Pilot outputs

The reported numbers of persons counseled, new home owners assisted and funds invested from all 84 NWOs involved in the Pilot are as follows.

- The number of persons counseled during the two-year Pilot period was 86,204. Pre-purchase counseling was up 13 percent over the baseline period, while post-purchase counseling decreased 33 percent. Category C sites showed the largest percentage increase, while Category B sites reported a decrease in the number of persons counseled.
- Overall, the number of new home owners assisted by the participating NWOs during the Pilot period was 17,397. This number is 40 percent higher than the number of home buyers assisted during the pre-Pilot baseline period, a net increase of 4,585 home buyers. Category A sites showed the greatest percentage increase, while Category B sites showed a modest decrease in the number of persons counseled.
- The value of housing units bought, built or rehabilitated with direct involvement by Pilot organizations was approximately \$1.5 billion, an increase of 28 percent, or \$435 million, over pre-Pilot levels. Again, Category C sites showed the largest percentage increase, while Category B sites showed the smallest.
- Over two-thirds of the clients receiving homeownership assistance have incomes between 50 and 115 percent of local median incomes. Half are white, 24 percent are Hispanic and 21 percent are African-American. Thirty-eight percent of the clients are under age 30 while 35 percent are between 30 and 39 years of age. Two-parent households with children make up 32 percent of the clients, single adults make up 24 percent and female-headed households make up 23 percent of the clients.
- The average price that clients paid for a home was \$85,277 and the average mortgage payment was \$714 per month. The average first mortgage amount was \$77,889 and the

average second mortgage amount was \$4,863. Clients paid an average of \$4,552 in out-of-pocket costs.

Interpretations of these outcomes figures should consider several points. First, difficulties in tracking clients once they complete the homeownership counseling programs suggest that the actual numbers of persons counseled and home owners assisted may be substantially higher than reported. More will be said below about the difficulties of tracking NWO clients.

Second, large proportions of the Pilot funds provided to the Category A and B organizations were used to capitalize revolving loan funds. Thus, as the first round of loans are paid back, those funds will be used to assist additional home buyers, increasing the number of new home owners that can be attributed to Pilot funds.

Third, there is a tradeoff between the number of new home owners produced and their initial characteristics, such as credit ratings and incomes. Some clients are ready to buy and only need the training to qualify for an affordable loan product, while others need assistance in resolving credit problems or saving for a down payment. The numbers do not reflect these important client differences. By exclusively focusing on the number of new home owners produced, we run the risk of discouraging NWOs from assisting harder-to-serve clients who are the least likely to achieve home ownership without assistance.

Finally, many factors beyond the control of the NWOs impact the number of persons in a local area who are interested in home ownership. These include the health of the local economy, competition from other homeownership counseling programs and the availability of funds for affordable mortgage loans. The New Orleans NHS, for example, saw a sharp drop in the number of persons coming for training when the City's mortgage revenue bond funds were exhausted.

Having recognized that the numbers do not tell the whole story, it is still important to track the number of persons being served as well as the number who go on to become home owners. The job of tracking clients after they complete homeownership training is clearly more difficult than anticipated. Other than trying to contact clients on a periodic basis, there is no easy way to know if they purchase homes with mortgage loans from other lenders. Given the number of clients being trained and the difficulty of contacting them, periodic calling is a time consuming task. Typically, the NWOs do not have the staff capacity to make those calls. Thus, there is a clear need to develop effective client tracking methods. The idea of holding completion certificates until they are needed to qualify for a loan may have some merit, although it needs to be tested before being widely adopted. Other creative ways of tracking clients also need to be developed and adequate resources need to be devoted to their implementation.

The production numbers of the organizations in the different funding categories were generally consistent with the objectives of each category, although the relatively large increases in the

numbers of persons counseled and of home owners assisted by Category C organizations were a surprise, as was the decline in the number of persons counseled by Category B organizations. Given the relatively modest size of the grants received by Category C organizations, one might conclude that providing smaller grants to organizations with smaller initial production levels is the most cost effective strategy. It may be, however, that these lower-producing organizations had greater growth potential, while the larger organizations had “plateaued,” or had already captured a large share of the potential market. The role of the Pilot in the growth of Category C organizations is not entirely clear. We also caution making too much of the decline in the number of persons counseled among the Category B organizations given their small number and the other possible influences on the number of persons seeking homeownership assistance.

The data on the characteristics of the clients served by Pilot organizations indicates that they are serving a diverse, low- and moderate-income population. Compared to several other affordable loan providers, participating NWOs are serving higher proportions of African-American and Hispanic buyers. They are also serving substantially higher percentages of very low-income and single women buyers compared to loans purchased by Fannie Mae and Freddie Mac. Thus, participating NWOs are serving many clients who would probably not be able to purchase a home without the assistance they provide. The data on the average grant and loan characteristics show that NWOs involved in the Pilot are helping clients purchase modest homes and that the subsidies provided, in the form of both second mortgages and grants, are both modest and progressive, in that lower-income home buyers are receiving higher subsidies than higher-income buyers.

Pilot implementation

The main findings from the process evaluation involving eight Pilot programs are as follows.

- A large majority of Pilot funds were used to directly assist clients purchase homes by providing below-market rate second mortgages or down payment and closing cost assistance. A much smaller proportion of the Pilot funds were used for operating expenses such as hiring additional counselors, developing marketing plans or upgrading computer systems.
- The organizations studied have been very successful in developing and maintaining partnerships with other public, private and non-profit organizations interested in promoting home ownership in their local communities.
- Most clients hear about the homeownership services offered by NWOs through word-of-mouth. Presentations to local church groups and civic organizations were also an important recruiting strategy. Lenders, and in some instances real estate brokers, also

frequently refer clients to NWOs for counseling and for second mortgages and down payment assistance.

- Client pre-screening is an effective way to identify their unique assets and needs and to match them with the appropriate services. It is a very important component of effective homeownership promotion programs.
- Post-purchase counseling and training is the least developed step in the Full-Cycle LendingSM process. Most programs visited offered delinquency counseling on an as-needed basis but few had well developed training courses in money management, home repair and maintenance, and other topics useful to new home owners.
- The major facilitators of successful homeownership promotion were found to be: stable leadership; well-trained staff; high quality training and counseling; effective partnerships with private, public and non-profit organizations, and favorable local market conditions.
- The major obstacles to successful home ownership were found to be: a lack of affordable housing units; high rehabilitation costs, unrealistic client expectations; inadequate marketing of the homeownership services offered; difficulty in tracking clients; staff turnover; lack of real estate broker interest in working with lower-income clients; regulatory obstacles, and predatory lending.

The findings of the process evaluation conducted in eight Pilot sites suggest that Pilot programs were successfully implemented, although often more slowly than anticipated. In addition, the Pilot funds seem to have been used effectively. A large majority of the Pilot funds were used to directly assist new home buyers and will continue to assist additional home buyers in the future. The remaining funds were used to hire additional staff, expand marketing and otherwise improve the delivery of services offered to clients, including expanding the languages in which homeownership counseling and training is offered.

The process evaluation results also highlight the importance of NWOs developing effective partnerships with other for-profit, government and nonprofit organizations. The NWOs studied relied heavily on their partners to refer clients, provide first mortgages and provide both operating and programmatic funds. Nurturing existing partnerships and developing new ones is a critical component of effective homeownership promotion programs. It is important for NWOs to have multiple partnerships in case individual partners drop out, as may happen, for example, when a local bank is bought out by a out-of-town bank. Having standard partnership agreements is also helpful in standardizing procedures and minimizing complexity.

Many of the NWOs studied have also learned that the backgrounds and skills of those hired as homeownership counselors and trainers are critical to the success of their programs. These staff

members have the most contact with clients, hence the impressions they leave will largely determine whether they recommend the program to their relatives, friends and neighbors. The ideal counselor must be very well versed in what it takes to qualify for a mortgage loan, be able to effectively communicate that information to clients, and be encouraging so that clients are motivated to follow through in curing any deficiencies they may have. Trainers need similar skills plus they must be comfortable in large groups and they must understand basic principles of adult education, such as the importance of learning by doing. Great care should be exercised in selecting and retaining effective counselors and trainers, as they are the hearts and souls of homeownership programs.

Expanding marketing is a key to increasing the number of clients served by NWOs. Although some of the NWOs used Pilot funds to expand the marketing of their homeownership services, others continue to rely mainly on word-of-mouth. The success of the multifaceted marketing campaign in Santa Fe, which led to a 50 percent increase in clients, attests to the potential of well designed marketing campaigns.

The findings of this study indicate that post-purchase counseling and training is the least well-developed step in the Full-Cycle LendingSM process. Given the recent slowdown in the economy, demand for these services will certainly increase as recent home purchasers are laid off from their jobs. It is important that NWOs continue to provide homeownership services to their clients and not forget about them once they have bought their homes.

Thus, NWOs need to expand their post-purchase counseling and training services. One-on-one delinquency counseling is needed to assist those who fall behind on their mortgage payments. To be effective, however, delinquent borrowers must be contacted before they are too far behind on their payments. Although most NWOs are able to identify clients who fall behind on loans that they service, typically they are not able to identify clients who fall behind on loans serviced by other lenders. In many instances, NWOs hold second mortgages on properties while private lenders hold the first mortgages, thus the NWOs have no way of knowing if a client is delinquent on their first mortgage. Establishing agreements with other lenders to notify NWOs when their clients are behind on loan payments would help NWOs provide effective delinquency counseling.

Post-purchase training on topics including budgeting and general financial literacy, home maintenance and other relevant topics is also an important means of helping clients avoid problems with their homes. Post-purchase training can reinforce the budgeting principles introduced in pre-purchase counseling and assist home owners in maintaining their properties. The provision of post-purchase counseling and training requires additional sources of financial support: Likely sources of that support include: HUD, Neighborhood Reinvestment, local government agencies, financial institutions, foundations and local building supply companies.

Several of the NWOs visited were HUD-certified delinquency counseling organizations and received compensation from HUD for each client counseled. Others were part of Neighborhood Reinvestment 's delinquency counseling program.

Real estate broker lack of interest in showing them properties was found to be one of the main obstacles to home ownership faced by NWO clients. During our site visits we also heard from staff, clients and real estate brokers themselves that many real estate brokers are not interested in spending time with persons who are looking to buy housing units at the low end of the market. Focus group participants often told of real estate brokers who wouldn't return their calls or who did not show up for appointments. Real estate broker lack of interest was a substantial obstacle to buying a home for many low- and moderate-income households and should be looked into further. In other instances, clients and NWO staff commented that real estate brokers are pressuring buyers to purchase properties without conducting thorough inspections, as inspections might interfere with the sale.

Pilot impacts

The impact evaluation focused on identifying the Pilot's impact on the sponsoring organizations, neighborhood revitalization and on the clients served. The major findings are as follows:

- The Home Ownership Pilot allowed the participating NWOs to hire additional staff and assist more clients. It led to important improvements in the marketing of homeownership services. Finally, it substantially increased their capacities to provide affordable loan products. The Pilot also had positive impacts on the partnerships of NWOs. In some instances it strengthened existing partnerships while in others it helped create new ones.
- Based on the comments of new home owners who participated in focus groups held in each site, home ownership has increased the sense of control they feel over their home environments, increased their sense of financial security, provided additional space for household members and enhanced their self-esteem.
- Program staff member suggested that the Pilot allowed them to assist many families who would not otherwise have been able to purchase a home. They also stressed the positive impacts of homeownership training for those who did not go on to purchase homes.
- Although many staff members of the participating NWOs described positive changes in the neighborhood served, it is too early to assess the Pilot's impact on them.

These findings suggest that the Pilot had a positive influence on two of the three types of impacts considered. First, it substantially expanded the capacities of the participating NWOs to provide counseling and training and to offer grants and affordable loans. In doing so it allowed them to assist many more first-time home buyers. In addition, many persons who went through the homeownership counseling and training may have also benefited from the information and skills they learned there. Second, based on focus group comments, the homeownership training programs offered by the Pilot NWOs covered the essential information needed to buy a home. Moreover, those who went on to buy homes felt that doing so had several positive impacts on their lives. It is too early to draw any firm conclusions, however, on the impact of the program on neighborhood revitalization.

The future of homeownership promotion efforts

In the coming years, the homeownership promotion programs of NWOs are likely to face several new challenges. Among these are: a weakened demand for home ownership, a change in the characteristics of clients, heightened competition from private lenders and a dearth of affordable units.

Declining demand. After many years of strong economic growth, the national economy is weakening. At the time of this writing, economic growth rates have slowed and unemployment is on the rise. Moreover, forecasts suggest that the economy is likely to remain sluggish for some time to come. This is likely to dampen interest in home ownership in general, and to have a particularly large impact on the demand among the low- and moderate-income households targeted by NWOs. An increased concern about job security is likely to discourage many households from buying homes in the near future.

NWOs will need to respond to this anticipated decline in demand by stepping up their advertising, creating new partnerships and focusing on new markets such as recent immigrants. As discussed earlier, many of the NWOs we visited rely largely on word-of-mouth to recruit new clients. In the future more active and aggressive marketing campaigns will be required to bring in new clients. Another important source of new clients is referrals from local lenders, real estate brokers and government organizations. Thus, NWOs should strive to expand these partnerships. Finally, recent studies suggest that immigrant households will make up a substantial proportion of new home owners (Megbolugbe and Simmons 1995; Pitkin et al. 1997). Thus, NWOs need to have the capacity to serve this growing market by having staff that speak different languages and understand the unique cultural patterns that affect the abilities of members of different ethnic groups to purchase homes (See Ratner 1996; 1997 for ethnographies of home buying attitudes and strategies among different racial and ethnic groups.)

Changes in client characteristics. Over the last decade there has been rapid growth in both the number of organizations offering homeownership counseling and training, and in the number of persons served by these programs. As a result, many of the “easy-to-serve” clients have already bought homes and the remaining population is composed of a larger share of “harder-to-serve” clients with more severe impediments to home ownership. This harder-to-serve group will take longer and require more staff assistance to be able to qualify for mortgage loans. In the past, the main constraint faced by clients has been poor credit ratings. In the future it is likely to be lack of sufficient incomes. Although not easy to correct, credit problems are not as difficult to overcome as is lack of income.

Given this anticipated change in client characteristics, NWOs should prepare to institute or expand longer-term training programs, such as home buyer's clubs, as many clients will need more assistance and it will take them longer to qualify for a mortgage loan. These clubs provide ongoing support and encouragement while clients are improving their credit ratings or addressing other obstacles to buying a home. In our first round of site visits, many of those interviewed felt that home buyer's clubs were not an efficient use of their time. By the second round of site visits, however, a couple of sites had changed their opinions of them and were planning on offering them. The director of one of the programs that did offer a home buyer's club commented: “These are the most gratifying successes. These people couldn’t have done it without the club. Many others would have made it anyway.”

Heightened competition. Competition for the clients that have been served by NWOs is likely to increase in the future. This increased competition will come from two sectors: private lenders and other nonprofit organizations offering homebuyer assistance programs. In several of the sites studied, the affordable loan products offered by for-profit lenders were more attractive and/or easier to qualify for than NHSA or other loan products offered by nonprofit or government agencies. The Community Reinvestment Act puts pressure on lenders to be more creative with the loan products offered and with the ease and speed of loan underwriting. The affordability goals imposed on Fannie Mae and Freddie Mac by HUD also provide additional incentives for local lenders to offer attractive loan products by increasing the availability of mortgage funds from capital markets. The trend towards more aggressive underwriting in affordable mortgage products by for-profit lenders is likely to continue as they gain additional knowledge about how these previously underserved markets operate. Additional competition for clients will also come from other nonprofit organizations that decide to offer homebuyer assistance. This has already happened in several of the sites visited.

An effective response to this heightened competition will require the involvement of NHSA, Neighborhood Reinvestment and the participating NWOs. First, NHSA needs to ensure that their loan products are competitive with those offered by private financial institutions. NHSA loans must offer competitive interest rates, but also be competitive in terms of qualifying

standards and both ease and speed of processing. Several of the sites we visited have stopped working with NHSA due to what were perceived to be overly strict qualifying standards and delays in loan approval relative to other loan products.

Second, one of the main reasons that financial institutions and real estate brokers refer clients to NWOs is the down payment assistance and second mortgages that they provide. Many clients would not be able to buy a home without this assistance. A lack of capital, however, limits the ability of many NWOs to provide that assistance. Neighborhood Reinvestment can help by working to provide new sources of capital. Finally, given the importance of financial institutions in referring clients, the NWOs need to develop additional partnerships with private lenders. NWO executive directors need to expand the number of local lenders with which they work.

A lack of affordable units. In several of the cities we visited, a lack of affordable housing units severely constrained the ability of low- and moderate-income households to realize their dream of home ownership. Many clients complete homeownership training and are pre-qualified for a loan but cannot find a suitable unit that they can afford. In some instances, this is due to a mismatch between client images of the homes they would like and the homes they can afford. Some clients, for example, want to purchase a newly constructed single-family house, but none are available at a price they can afford. Other clients want to purchasing a home in an area that they perceive to be safe and the only units they can afford are in relatively high crime areas. In other instances, however, there are simply very few units in their price range, regardless of their location or condition. The housing market in Santa Fe, for example, contains very few units that can be purchased for under \$100,000. According to the most recent Joint Center report, *The State of the Nation's Housing* (2001): "Both rising home prices and higher average interest rates in 2000 made homeownership less affordable for new buyers coming into the market. Owners' real incomes were up 2 percent last year, but real house prices rose 4 percent and typical after-tax monthly mortgage payments jumped 10 percent." Thus, first time home buyers have had more trouble finding housing they can afford—a trend that is likely to continue in the future.

To address this shortage of affordable units, NWOs will need to pursue a multi-pronged strategy including the construction of new affordable units, the rehabilitation of existing units and the advocacy for local programs and ordinances that will increase the production of affordable homes. Several NWOs in our study, including Chattanooga and Santa Fe, were producing significant numbers of new affordable housing units through new construction. In both instances, these new affordable units are part of larger mixed-income developments which should be favored over more homogeneous communities. Research has shown that low-income households benefit from living in among higher-income ones (Rosenbaum 1995). Another approach, more suitable for areas with a large supply of low cost, substandard units, is to pursue an aggressive purchase-rehab-resale program such as those administered by NHS of New Orleans and NHS of New Britain. Finally, NWOs are not likely to be able to come close to

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meeting the need for affordable units alone, so they need to work with other local housing organizations in advocating for the adoption or expansion of programs and ordinances that support the production of affordable housing. Such advocacy, for example, might focus on establishing or expanding local housing trust funds, revising local codes that impede housing rehabilitation or passing an inclusionary zoning ordinance.

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APPENDIX TABLES

Table A-1: Projected vs. actual numbers of home buyers assisted during pilot period.

Cat.	Organization	City	ST	Projected	Actual
A	The Home Ownership Center	Cincinnati	OH	200	123
A	NHS of New York City, Inc.	New York	NY	955	564
A	NHS of Chicago	Chicago	IL	680	352
A	Ithaca NHS, Inc.	Ithaca	NY	160	131
A	NHS of Des Moines, Inc.	Des Moines	IA	334	604
A	Salt Lake NHS, Inc.	Salt Lake City	UT	270	225
A	Inglewood NHS, Inc.	Inglewood	CA	180	100
A	NRS of Saginaw, Inc.	Saginaw	MI	213	113
A	NHS of New Haven, Inc.	New Haven	CT	270	85
A	NHS of Milwaukee, Inc.	Milwaukee	WI	577	393
A	NHS, Inc. of Great Falls	Great Falls	MT	275	749
A	Community NHS	Saint Paul	MN	200	162
A	NHS of the Inland Empire	San Bernardino	CA	610	526
A	Allentown NHS, Inc.	Allentown	PA	582	608
A	Richmond NHS, Inc.	Richmond	VA	250	98
A	Kalamazoo NHS, Inc.	Kalamazoo	MI	178	252
A	Anchorage NHS, Inc.	Anchorage	AK	275	375
A	NHS of Green Bay, Inc.	Green Bay	WI	211	300
A	San Diego NHS, Inc.	San Diego	CA	164	124
A	NHS of Boise, Inc.	Boise	ID	216	860
A	Lafayette NHS, Inc.	Lafayette	IN	203	192
A	NHS of Santa Fe, Inc.	Santa Fe	NM	351	252
A	Colorado Rural Housing Development Corp.	Westminster	CO	184	240
A	Hamilton NHS, Inc.	Hamilton	OH	240	98
A	Laredo-Webb NHS, Inc.	Laredo	TX	420	736
A	Pocatello NHS, Inc.	Pocatello	ID	198	147
A	Salisbury NHS, Inc.	Salisbury	MD	200	156
A	Neighborhood of Affordable Housing	Boston	MA	300	373
A	Rural Opportunities, Inc.	Rochester	NY	535	601
A	Burlington Community Land Trust	Burlington	VT	160	149
A	Charlotte Mecklenberg Housing Partnership	Charlotte	NC	220	169
A	Jacksonville Housing Partnership, Inc.	Jacksonville	FL	438	203
A	Knox Housing Partnership	Knoxville	TN	0	170
A	NHS of Orange County, Inc.	Anaheim	CA	340	368
A	Home Headquarters, Inc	Syracuse	NY	360	334
B	NHS of Phoenix, Inc.	Phoenix	AZ	250	376
B	NHS of New Orleans, Inc.	New Orleans	LA	225	113
B	NHS of New Britain, Inc.	New Britain	CT	499	389
B	NHS of Rochester, Inc.	Rochester	NY	372	358
B	Vallejo NHS, Inc.	Vallejo	CA	290	184
B	Los Angeles NHS, Inc.	Los Angeles	CA	300	175
B	Sacramento NHS, Inc.	Sacramento	CA	330	246
B	Neighborhoods Inc., of Battle Creek	Battle Creek	MI	260	82
B	Chattanooga Neighborhood Enterprise	Chattanooga	TN	660	439

Table A-1 continued.

Cat.	Organization	City	ST	Projected	Actual
C	NHS of Albuquerque, Inc.	Albuquerque	NM	128	80
C	NHS of Saint Louis, Inc.	Saint Louis	MO	138	268
C	NHS of Pueblo, Inc.	Pueblo	CO	20	63
C	NHS of Toledo, Inc.	Toledo	OH	118	82
C	Clearwater NHS, Inc.	Clearwater	FL	80	100
C	NHS of Oklahoma City, Inc.	Oklahoma City	OK	265	235
C	Aberdeen NHS, Inc.	Aberdeen	WA	73	60
C	Neighborhood Housing & Dev. Corp.	Gainesville	FL	120	171
C	NHS of Kenosha, Inc.	Kenosha	WI	168	73
C	NHS of Richland County, Inc.	Richland Center	WI	68	66
C	Rutland West NHS, Inc.	West Rutland	VT	85	96
C	Neighborhood Partnership of Montclair, Inc.	Montclair	CA	114	43
C	Midland NHS, Inc.	Midland	TX	150	112
C	Manchester NHS, Inc.	Manchester	NH	285	70
C	NHS of Provo, Inc.	Provo	UT	60	43
C	Waco NHS, Inc.	Waco	TX	168	296
C	Community Housing Services	Wichita	KS	125	112
C	Twin Cities CDC	Fitchburg	MA	95	55
C	Amigos del Valle, Inc.	Mission	TX	74	98
C	Navajo Partnership for Housing	St. Michaels	AZ	0	0
C	NHS of the Black Hills	Deadwood	SD	75	128
C	Gilman Housing Trust	Newport	VT	110	96
C	Little Dixie Community Action Agency, Inc.	Hugo	OK	135	108
C	Argenta Community Development Corp.	North Little Rock	AR	82	112
C	Portland Housing Center	Portland	OR	265	313
C2	NHS of Cleveland, Inc.	Cleveland	OH	70	103
C2	Columbus NHS, Inc.	Columbus	OH	0	53
C2	NHS of Norwalk, Inc.	Norwalk	CT	75	69
C2	NHS of Fort Worth, Inc.	Fort Worth	TX	140	57
C2	Utica NHS, Inc.	Utica	NY	140	136
C2	Northside NHS, Inc.	Minneapolis	MN	0	176
C2	Dayton's Bluff NHS, Inc.	Saint Paul	MN	60	65
C2	NHS of Davenport, Inc.	Davenport	IA	120	72
C2	Scranton NHS, Inc.	Scranton	PA	80	86
C2	NHS of Duluth, Inc.	Duluth	MN	120	282
C2	Neighborhoods Inc. of Lincoln	Lincoln	NE	75	159
C2	NHS of San Antonio, Inc.	San Antonio	TX	245	212
C2	Housing Resources of Columbia County	Hudson	NY	120	108
C2	Coalition for a Better Acre	Lowell	MA	80	80
C2	Central Texas Homeward Bound Corp.	Austin	TX	0	105
	TOTALS			17,397	18,671

Table A-2. Characteristics of home buyers, by income category.

	Income*					
Characteristics	Very Low	Low	Moderate	Above Moderate	Not Available	Total
Race/Ethnicity						
White	1,260 (15%)	3,944 (47%)	2,201 (26%)	918 (11%)	47 (1%)	8,370 (50%)
Black	886 (25%)	1,691 (47%)	723 (20%)	295 (8%)	18 (1%)	3,613 (21%)
Hispanic	899 (22%)	1,815 (44%)	847 (21%)	509 (12%)	32 (1%)	4,102 (24%)
Asian	107 (28%)	170 (44%)	74 (19%)	32 (8%)	5 (1%)	388 (2%)
Am. Indian	32 (24%)	69 (51%)	18 (13%)	16 (12%)	0 (0%)	135 (1%)
Other	76 (28%)	113 (42%)	56 (21%)	19 (7%)	8 (3%)	272 (2%)
Total	3,260 (19%)	7,802 (46%)	3,919 (23%)	1,789 (11%)	110 (1%)	16,880 (100%)
Gender						
Single Men	701 (17%)	1,874 (46%)	996 (25%)	440 (11%)	41 (1%)	4,052 (24%)
Single Women	1,708 (25%)	3,424 (51%)	1,192 (18%)	373 (6%)	49 (1%)	6,746 (40%)
Co-buyers	864 (14%)	2,516 (41%)	1,755 (29%)	986 (16%)	33 (0%)	6,154 (36%)
Total	3,273 (19%)	7,817 (46%)	3,945 (23%)	1,799 (11%)	123 (1%)	16,957 (100%)
Age						
Under 30	1,115 (17%)	2,954 (46%)	1,604 (25%)	660 (10%)	91 (1%)	6,424 (38%)
30-39	1,101 (19%)	2,763 (47%)	1,352 (23%)	648 (11%)	17 (0%)	5,881 (35%)
40 & over	1,057 (23%)	2,111 (45%)	993 (21%)	493 (11%)	15 (0%)	4,669 (28%)
Total	3,273 (19%)	7,828 (46%)	3,949 (23%)	1,801 (11%)	123 (1%)	16,974 (100%)
Household Size						
2 or fewer	1,137 (13%)	3,775 (45%)	2,284 (27%)	1,187 (14%)	83 (1%)	8,466 (50%)
3-4	1,445 (23%)	3,075 (48%)	1,297 (20%)	512 (8%)	29 (1%)	6,358 (37%)
5 or more	693 (32%)	979 (46%)	369 (17%)	102 (5%)	11 (1%)	2,154 (13%)
Total	3,275 (19%)	7,829 (46%)	3,950 (23%)	1,801 (11%)	123 (1%)	16,978 (100%)
Household Composition						
Single Adult	401 (13%)	1,563 (49%)	880 (27%)	342 (11%)	22 (1%)	3,208 (24%)
Female-headed single parent	958 (32%)	1,596 (53%)	359 (12%)	82 (3%)	15 (1%)	3,010 (23%)
Male-headed single parent	88 (22%)	212 (52%)	78 (19%)	25 (6%)	5 (1%)	408 (3%)
Married w/o kids	116 (9%)	424 (31%)	471 (34%)	353 (26%)	8 (1%)	1,372 (10%)
Married w/ kids	806 (19%)	1,952 (47%)	994 (24%)	417 (10%)	15 (0%)	4,184 (32%)
Unrelated adults	62 (11%)	204 (36%)	203 (36%)	97 (17%)	3 (1%)	569 (4%)
Other	98 (24%)	162 (39%)	92 (22%)	48 (12%)	11 (3%)	411 (3%)
Total	2,533 (19%)	6,116 (46%)	3,087 (23%)	1,369 (10%)	97 (1%)	13,202 (100%)
Sample size	3,275 (19%)	7,829 (46%)	3,950 (23%)	1,801 (11%)	123 (1%)	16,978

* Very low = < 50% MSA Median
 Low = >50% and <80% MSA Median
 Moderate = >80% and <115% MSA Median
 Above Average = >115% MSA Median

Table A-3. Regional differences in average housing costs.

	Region								
	Great Lakes	Mid-Atlantic	New England	New York	Southern	North Central	Pacific	Rocky Mountain	South Central
House Price	\$65,048	\$64,190	\$116,121	\$86,597	\$73,374	\$75,752	\$117,457	\$88,453	\$67,006
Total Monthly Payment	\$557	\$584	\$933	\$757	\$574	\$644	\$960	\$698	\$607
First Mortgage	\$62,544	\$61,445	\$104,478	\$74,405	\$64,955	\$70,813	\$105,000	\$82,355	\$61,974
Gap Financing	\$5,291	\$3,559	\$6,323	\$7,356	\$9,081	\$5,138	\$11,015	\$5,416	\$4,614
Owner's out-of-pocket	\$2,802	\$2,524	\$8,948	\$6,701	\$1,831	\$3,787	\$5,459	\$3,393	\$3,248
Sample size	1,652	948	1,474	2,169	610	3,027	2,231	2,834	2,078

